A COMPARATIVE FINANCIAL PERFORMANCE ANALYSIS BETWEEN HIMALAYAN BANK LIMITED (HBL) AND STANDARD CHARTERED BANK NEPAL LIMITED (SCBNL)

A Thesis Submitted To

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Submitted By

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RECOMMENDATION

This is to certify that the thesis

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Entitled

COMPARATIVE FINANCIAL PERFORMANCE ANALYSIS BETWEEN HIMALAYAN BANK LIMITED AND STANDARD CHARTERED BANK NEPAL LIMITED

has been prepared as approved by this department in the prescribed format of Faculty of Management, Tribhuvan University. This thesis is forwarded for examination.

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VIVA–VOCE SHEET

We have conducted the viva–voce examination of the thesis

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S).

VIVA–VOCE Committee

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Acknowledgement

This is a comparative study of financial performance of two joint venture banks running their operation in Nepal, which are Himalayan Bank Limited and Standard Chartered Bank Nepal Limited.

I would like to express my deep sense of indebtedness to my supervisor Achyut Gyawali for his sincere efforts, continuous guidance and valuable suggestions throughout my research work.

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Suman Acharya

18th December 2010

DECLARATION

I hereby declare that the work reported in this thesis entitled **" Comparative Financial Performance Analysis Between Himalayan Bank Limited and Standard Chartered Bank Nepal Limited"** submitted to the office of the Dean, Faculty of Management, Tribhuvan University is my original work completed in the form of partial fulfillment of requirements for the Masters of Business Studies (M.B.S.) under the supervision of Associate Lecturer Achyut Gyawali, Central Department of Management.

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1. Introduction

1.1 Background

Bank plays a vital role in developing the economy of any country. Before 1848 B.S. the Goldsmiths used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of security rather than earning interest. The term Bank emerged in USA in 1848 B.S.

Bank is a resource mobilization institution, which accepts deposit from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce industry, tourism etc.

The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidence of various segments and extends credit to people.

In Nepal banking activities were done after the establishment of Nepal Bank Limited (NBL) in 1937. The programs were first initiated by NBL in 1955, the first Central Bank named as the "Nepal Rastriya Bank "(NRB) was established with an objective of supervising, protection and directing the function of commercial banking activities.

Commercial Bank fully owned by government named as Rastriiya Banijya Bank was established in 1966.

Nepal's reform efforts in the financial sectors begun in 1980s, when NRB eased entry restrictions with as amendment to the commercial bank act 1974 as a result, three banks namely Nepal Arab Bank Limited (NABIL), Nepal Indo-Suez bank (NIBS) and Standard Chartered Nepal Bank Limited (SCBNL) came into operation prior to 1990s. However, it was only in 1992, after NRB adopted a liberal attitude in permitting commercial bank to open, the financial liberalization really took place. Six new banks, all in joint venture of foreign banks, have come into operation making the total number of the commercial banks to eleven. In addition, letter of intent has been given to three more commercial banks to operate on regional basis (Joshi keshav raj, 1989).

1.2 focus of the study

The establishment of the joint venture bank has given a new horizon to the financial sector of Nepal. The study courses on the financial performance of two joint venture banks namely Himalayan Bank Limited (HBL) and Standard Chartered Bank Nepal Limited (SCBNL).

HBL is a joint venture bank with Habib Bank Limited of Pakistan was established in 1992 AD under the company act 1964 AD. This is the first joint venture bank with maximum share holding by the Nepalese private sector which was managed by Nepali chief executive. The operation of the bank started from February 1993. An authorized capital of the bank has been Rs 240 millions, issued Rs 120 millions. Its ownership is composed of founder share holders 51%, Habib Bank of Pakistan 20%, Karmachari Sanchaya Kosh 14% and public 15%.

SCBNL was established in 1985 ad as a second joint venture bank under the company act 1964 AD. It is executed under the direction of Australian and Newzeland banking group limited (ANZ). The authorized capital of the bank has been Rs 300 millions, issued rs150 millions and paid up capital Rs 150 millions. Its ownership is composed of ANZ Grindlays Bank 50%, Nepal Bank Limited 33.34% and public 16.66%.

The main objective of both banks is to provide modern banking facilities and loan to agriculture, commerce and industrial sector.

1.3 statement of problem

The number of joint venture banks is being increased in response to the economic liberalization policies of the government. Besides joint venture banks, commercial banks are also being registered by Nepalese promoters. Other institutions offering similar nature of services like finance companies, co-operative societies and development banks are growing in large number. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs.

As per the economic survey of fiscal year 2006\07, Nepalese economy witnessed mixed trend. Total credit and investment of the bank grew by lower rate than that of resource utilized by commercial banks declined in the year as compared to the previous years. Sluggish securities market could not slow any conspicuous sign of revival in the manufacturing sector. Banks have been facing the considerable pressure to lower the lending rates, which affects the profitability adversely. The commercial banks are competing for limited opportunities, narrow clientele base and barring investment in treasury bills. There are hardly any other opportunities available for short term investment. On account of continued slackness in the economic activities in the country, the demand for credit has not picked up besides, competition in the banking sector has turned more and lending opportunities in good projects are very limited.

With the current economic condition of the country, the investment in agriculture, manufacturing and industrial sector has not grown satisfactory. Hence the joint venture banks are also not succeeding perfectly to shift the deposit in profitable sectors. Competition is being the burning issues at present.

The problem of the study lies on the issues related to the HBL and SCBNL answer to the following questions:

- How far have HBL and SCBNL been able to shift the monetary resource from savers to users?
- How sound is the operational result in relation to their profitability?
- What is the comparative position of two banks in terms of liquidity, leverage, turnover etc?

1.4 objective of the study

Main objective of this research is to examine and evaluate the financial performance of two joint venture banks namely HBL and SCBNL the specific objectives of this research are as follows:-

- To examine comparative financial position of selected joint venture banks.
- To evaluate liquidity, leverage, turnover position of selected joint venture banks.
- To find the future trend of total deposit, total investment, loan and advances, net profit etc.

- Lastly to identify the financial strength and weaknesses of the concerned banks and offer suggestions for the improvement in the performance.

1.5 significance of the study

At present the joint venture banks are going a wide popularity though the efficient management and professional service and playing an eminent role in the economy. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly increasing financial institutions are creating threats to the joint venture banks. In this context, the financial analysis wouldn't analyze strengths, weaknesses, opportunities and threats of selected joint venture banks. The result of research will be helpful for JVBs, especially for sample to formulate strategies to face the increasing competitions. The study no doubt will also have multidimensional importance for various areas, which are mentioned below in brief:

- Importance to shareholders
- Importance to policy formulators and academically professional
- Importance to management bodies of these banks in comparison with other banks
- Significance to the student and various groups those having interest in banking sector

1.6 limitation of the study

The study faces very much challenging number of limitations during the study period. Being a student, lack of sufficient time and resources are the major limitations. The study has been conducted as partial fulfillment of the requirement for the master of business studies of the management faculty, T.U.

- The analysis period of research covers only six years i.e. the fiscal year ended 16th July 2004 to fiscal year ended 16th July 2009.
- It focuses on financial performance and doesn't covers other aspects
- In this study only selected financial and statistical tools and techniques are used

1.7 Organizing the study

The study has broadly been divided into five chapters:

Chapter 1- introduction- it deals about focus of the study, statement of the problem, objective of the study, importance, limitations and other scheme.

Chapter 2- review of literature- this chapter deals about concepts of banks and review of relevant studies, books and journals

Chapter 3- research methodology- it includes research design, population and sample, sources of data and method of data analysis

Chapter 4- analysis and interpretation of data- this chapter analyzes the data and interprets the result obtained

Chapter 5- findings, summary, conclusion and recommendation- it summarizes the result of analysis and offers suggestive framework

Bibliography and Annexes have also been incorporated at the end of the study

2. Review of Literature

Review of literature is basically stocktaking of available literature in the field of research. The textual constraints would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. While conducting the research study, previous studies cannot be ignored, as that information would help to check the chances of duplication in the present study. Thus one can find what research studies have been conducted and what remains to go with.

Therefore this chapter deals about concept of bank, concept of commercial bank, concept of joint venture bank and review of school thoughts and the objectives set by different researchers in the similar field of study.

2.1.1 Concept of bank

A bank is a financial institution, which plays significant role in the development of a country. It facilitates the growth of trade and industry of rational economy. However, bank is a resource for economic development, which maintains the self-confidence of various segment of society and extends credit to the people.

“A bank is a business organization that receives and holds deposits of fund from other, makes loans or extends credits and transfer funds by written orders of depositors.”1

“In England, goldsmiths were the bankers in an ancient period. They used to lend money to the government and also at the time of emergency to keep deposits for safety purpose. People used to keep their ornaments to goldsmiths because they had safe box. In ancient time, the foreign exchange also used to be done by such goldsmiths, merchant and money lenders."2

In Nepal, banking transactions took place only after the establishment of Nepal bank limited in 1994BS. Being only bank at that time, it performed the activities of central bank to some extent. The central bank was essential to establish but no activity was done till 2007. The country then, rose to establish "central bank" and "Nepal Rastra Bank" was established under Nepal Rastra Bank act 2012BS. Before that the credit need of people for commercial and other purpose was mostly performed by the unrecognized market of private money lender."3

In short the term bank in the modern time refers to an institution having the following features:

- It deals with money, accepts deposits and advances loans
- It also deals with credit. It has facility to expand its liability
- It is a commercial institution. It aims at earning profit
- It is a unique financial institution that creates demand deposit which serves as a medium of exchange and as a result, the bank manages the payment system of the country.

2.1.2 Concept of commercial bank

Commercial banks are that financial institutions, which deals in accepting deposits of people and institutions and giving loans against securities. They provide working capital needs of trade, industry and even to agricultural sector. Moreover, commercial bank also provides technical and administrative assistance to trade, industries and business enterprises.

“Commercial bank is a corporation which demand deposits, subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.”4

“A commercial banker is dealer in money such as cheques and bills of exchanges. He also provides a variety of financial services.”5

Principally, commercial banks accept deposits and provide loans, primary to business firms, thereby facilitating the transfer of funds in the economy.

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government and business units. They make funds available to borrowers, individuals, business firms and government establishment units.

“Commercial banks are those banks that pool together the savings of community and arrange for their productive use. They supply the financial needs on modern business by various means. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry. They cannot finance in fixed assets. Apart from financing, they also render services like collection of bills and cheques. Safe keeping of valuables, financial advising and etc to their customer.6

“A commercial bank is one which exchanges money, accepts deposits, grant loans and performs commercial banking functions and which is not a meant for cooperation, agriculture, industries or specific purpose.”7

Under commercial bank act 2031BS. Some roles and functions of commercial bank have been defined and emphasized. Commercial banks provide short term as well as long term debt whenever necessary for trade and commerce. They accept deposits from public and grant loans in different forms. They purchase and discount bills of exchange, promissory notes, exchange foreign currencies etc.

However, central bank is the main bank of any nation that directs and controls all the banks whose existence is in the country. In Nepal, Nepal Rastra Bank is the central bank of the country. All the commercial banks perform their functions under rules, regulations and the directives provided by Nepal Rastra Bank.

2.1.3 Concept of joint venture banks

"A joint venture bank is joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade)."8

Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment schemes between Nepalese investors, financial and non-financial institutions as well as private investors and their parent banks, each supplying 50% of total investment. The parent banks, which have experience in highly mechanized and efficient modern banking services in many parts of the world, have come to Nepal with higher technology and advance management skills.

JVBs in Nepal are formed as fully fledged commercial banks under the company act 2021BS and operate under Banijya Bank act 2031BS. The first joint venture bank, Nepal Arab Bank limited was established in 1984 July 12. Before that no banks were established under the joint venture principle. When two or more independent firms mutually decide upon to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it will know as joint venture. JVBs are established by joining different forces and with ability to achieve a common goal with each of the partners. They are more efficient and effective monetary institution in modern banking fields than other old type of banks.

Meanwhile, the government of Nepal has allowed JVBs to operate in the private sector and has also allowed finance company. Joint venture banks are already playing an increasing, dynamic and vital role in the economic development of country. These will undoubtly increase with the time to come. All Nepalese JVBs are established and operated under the rules, regulations and lance of Nepal Rastra Bank.

2.2 review of related studies

2.2.1 Review of books

Finance is a broad field and there are various books written in this subject. The book of M.Y. Khan and P.K. Jain is considered to be a useful book in the financial management. The modern approach of Khan and Jain views the term financial management in broad sense and provides a conceptual and analytical framework for financial decision making. According to them “the finance function covers both acquisitions of funds as well as their allocation, hence apart from the issue of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various users.”9

The three major financial decisions according to Khan and Jain are:

- The investment decision
- The financial decision
- The dividend policy decision

According to Weston and Brigham "investment of funds in assets determines the size of the firm, its profit from the operations, its business risk and its liquidity. Obtaining the best mix of financing and dividends determine the firm's financial charges and its financial risk. It also impacts its valuation."10

In the financing decisions, the financial manner is concerned with determining the best financing mix or an optimum capital structure. If a company can change its total valuation by varying its capital structure, an optimum financing would exist, in which market price per share could be maximized.

Another important decision of the firm, according to Van Horne is its dividend policy. "The dividend decision includes the percentage of earnings paid to stockholders in cash dividends. The dividend payout ratio determines the amount of earnings retained in the firm and must be evaluated in the objective of maximizing shareholders wealth."11

The financial management involves the solution of the three major decisions. Together they determine the value of a company to its shareholders. Van Horne believes that the objective of any firm is to maximize its value and therefore, the firm should strive for an optimal combination of the three inter-related decisions, solved jointly. The main thing is that the financial managers relate each decision to its effect on the valuations of the firm.

Financial management is that managerial activity, which is concerned with the planning and controlling of the firm's financial resources. I M Pandey believes that "among the most crucial decision of the firm are those which relate to finance and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skillfully."12

I M Pandey further identifies two kinds of finance functions. One is routine and another is managerial finance function. The routine finance function does not require a great managerial ability to carry them out and they are chiefly clerical in nature. Managerial finance functions on the other hand are so called because they require skillful planning, control and execution of financial activities. According to I m Pandey there are four important managerial finance functions:

- Investment or long term asset mix decision
- Finance or capital mix decision
- Dividend or profit allocation decision
- Liquidity or short term asset mix decision

Summary of what I have reviewed on various books of finance have been highlighted below:-

Finance is defined as the acquisition and investment of fund for the purpose of enchanting the value and wealth of an organization. The various finance areas include investment, public finance, corporate finance and financial institutions. The basic function of finance is to manage the firm's balance sheet in most efficient way. The balance sheet reflects how affirm acquired financing through debt and equity resources and it reflects the disposition of acquired financing among the various asset accounts. The major financial functions required for managing the bank's balance sheet are summarized below:-

- Analysis and planning
- Financial structure management
- Asset management

The first function financial analysis and planning is to understand the bank's current financial condition and plan for its future financial requirement in different economic scenarios.

After analyzing the financial needs, the second function is to manage the financial structure of the bank, which can be done by optimizing the use of debt and equity in the capital structure, a financial manager must concentrate in minimizing of cost of fund in one hand and maximization of value of the firm in the other. Moreover financial structure management for a banking sector includes a typical treasury function, which is also called “funds management.” This function contributes a significant portion earned by banks.

The financial function is the management of asset structure of the bank. Advance of credit and investment in certain portfolios constitute the major portion of the bank’s asset. The major financial function is the management of assets structure of the bank. Advance of credit and investment in certain portfolios constitute the major portion of the bank’s asset. The major financial function related to asset management is to decide for the least risky and most profitable alternatives of investment. This can be conducted by determining returns and risk associated with the loans and advances made by bank.

All the above financial decisions or functions as mentioned by different writers are instrumental towards effective handling of financial management, which includes activities beginning from raising of funds to efficient and effective use of funds. No matter either it is a banking or non banking institution.

2.2.2 Review of related journals

After reviewing the books, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation are studied.

An article written by Radhakrishna Paudel (2006) on banking challenges focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of JVBs has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sectors of the economy. Therefore, to sustain enter new areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc.

Mr. Paudel further writes that “saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash flows. On recent years growth rate of banks deposits has declined to 16% compared against 23% of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.”13

According to Mr. Paudel balance sheet profit and loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank’s balance sheet and profit and loss account. The bank’s balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account from a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items.

Interest received on loans and advances and investment paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service changes.

The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the banks and which is useful to then in making economic decisions. The disclosure requirement of bank’s financial statement has been expressly laid down in the concerned act; commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Paudel, the principle objectives of analyzing financial statements are to identify:-

- Financial adaptability (liquidity)
- Financial performance (profitability) and
- Financial position of bank (solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors:-

- The structure of balance sheet and profit and loss account.
- Operating efficient and internal management system.
- Managerial decisions taken by top management regarding interest rate, exchange rate, leading policies etc.
- Environmental changes (technology, government, competition, economy)

According to Mr. Paudel the other factors to be considered analyzing the financial statements of banks is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by bank for international settlement (BIS), capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicates a bank's financial strength and solvency. Presently the capital funds of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk weighted assets as capital funds. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with a bank's assets can be converted into cash to need deposit withdraws and other current obligations. It is also important in view of survival and growth of a bank.

He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank.

Dr Shrestha (1978) in his work commercial bank's comparative performance evaluation stresses on a proper risk management. He believes in the appropriate classification of loans under performing and non performing category. In this context he writes, "Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to be treated as unearned income."13

Regarding the risk management of the bank Dr Shrestha's other suggestions include:-

- Any customer having overdue loan of two years or more in his account should be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

The above journals focus in the various aspects of the banks economic environment. NRB press communiqué shows the current domestic market scenario article by Radhakrishna Paudel concentrates work stresses in effective way of evaluating the financial performance and Dr. Shrestha suggestions are focused towards proper risk management. Whatever, aspects of the bank the above journals target, they all have to be combinable for effective and efficient financial performance of the banks on the Nepalese economy.

2.2.3 Review of previous thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, financial performance analysis, resource mobilization and capital structure etc. The review of some previous study, which is relating to the Nepalese banking sector, is the most relevant sources and assistants for this research.

Keshav Raj Joshi, through his thesis “a study on financial performance of commercial banks” concluded that the liquidity position of commercial bank is satisfactory. Local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loans and advances have been their main form of the investment. Two third assets have been used for earning purpose. Profitability position of Nabil is stronger than others.14

Mr. Pradhan has done a research for which he carried out a survey of 78 enterprises. According to him “the most important finance function appears to be maintaining good relation with stockholders.”15

The finding reveals that banks and retained earnings are two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks which offer best interest rates. Most enterprises find that banks are flexible in interest rate. Further he said that among the bank loans, bank loan of less than one year is more popular in public sector does not feel so. Similarly, he concluded that the banks interest rate is just right while the majority of non-traded sector find that the same is one higher side.

Ramala Bhattrai, in her thesis paper entitled “lending policy of commercial banks in Nepal” has tries to examine the lending policy of the commercial banks and she has concluded that efficient utilization of resource is more important than collection of some lower investment means lower capital formation that hampers economic development that banks showed emphasis on efficient utilization of resources.”16

Mr. Acharya’s study (2003) entitled “a comparative study of financial performance of JVBs in Nepal” especially on Nabil and NIBL concludes that the liquidity position of both the banks is below normal standard of 2:1(i.e. unsatisfied). Comparatively this ratio of NIBL is better on an average. Both the banks are found to be efficient in utilizing most of their total assets.

Based on the findings of analysis, the research suggests on finding out the root cause of weak liquidity position to improve the liquidity of both banks. Similarly both the banks are suggested to maintain improved capital structure in increasingly equity base to extend loan advance to utilize more of the total deposits to mobilize resources and efficiently and to extend their banking facilities even in rural areas.17

Mr. Regmi (1969) in his thesis “a comparative study of the financial performance of HBL and NBBL” suggested NBBL to increase its current assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As capital structures of both the banks are highly levered, both the banks are recommended to maintain and improve mix at debt and owner’s equality by increasing equity share. He further suggests HBL to improve the efficiency in utilizing the deposits in loan and advances for generating the profit. NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively better than the same of NBBL. So NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle, bank faces high cost and causes the low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and the growth requirement of the banks. NBBL is suggested to increase its dividend payout ratio.18

The two banks should extend their resources to rural areas and promote the development of poor and disadvantaged group. In order to do so banks should open their branches in the remote areas with objective of providing cheaper banking services especially HBL should initiated in this regard because it has few branches in comparison to NBBL.

Because of the start competition between banking sectors both the banks are suggested to formulate and implement some sound and effective financial and non financial strategies to minimize operational expenses to meet required level of profitability. The banks are further suggested to adopt modern banking technologies to enhance their better and wide market.

Mr. Adhikari in his thesis" a comparative study of financial performance of NSBIBL and EBL" conclude that EBL is found superior regarding the liquidity, quality assets they processed and capital adequacy overall capital structure of NSBIBL appears more levered than that of EBL. But NSBIBL is found superior in terms of profitability and turnover comparatively interest remained more dominant in the   total income and expenses of NSBIBL than that of EBL. Regarding the test of hypothesis is (at5% level of significance) the performance of sampled banks significantly different with respect to the ratios, loans and advances to saving deposits. Loan loss provision to total deposit, interest earned to total assets and tax per share correlation analysis signifies that EBL is successful to utilize its resources more efficiently than NSBIBL.19

The review of the above mention bunch of research writes have definitely enrich my vision to elaborate analysis to come to the meaningful conclusion in realistic term and thereby come with some conclusion, few key suggestions that help on improvement of commercial banks.

2.3 Research Gap

A number of studies have already been done in the field of financial performance analysis. Many of the previous studies were descriptive and did not reflect the true position. The conclusions provided on those study seemed vague they seemed to lack objective ideas. One new aspect of this study may be that this study tends to focus on the analytical part and conclusions have been made through a thorough and objective judgment. Every effort has been made to ensure that the analysis, summary, conclusion and recommendation are clear and close to the practicality.

3. Research Methodology

Research methodology refers to the various sequential steps (along with the rationale of each step) adopted by a researcher in studying a problem with certain objective in view. It is a way to systematically solve the research problem. It may be understood as a science of studying how search is done scientifically. Includes the various steps that are generally adopted by a researcher in his/her research problem along with the logic behind them, it would be appropriate to mention here that research project are not meaningful to any one unless they are in sequential order which will be determined by the particular problem at hand. Therefore, this study aims at analyzing and interpreting the purpose of comparative financial performance or appraisal of two JVBs. This chapter focuses and deals with the following aspects or methodology:

- Research design
- Population and sample
- Sources of data
- Data collection procedure
- Data processing
- Method of data analysis

3.1 Research design

Research design is the task of defining the research problem. In other words “a research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact the research design is the conceptual structure within which the research is conducted.

General objective of this research study is to examine and evaluate the financial performance of joint venture banks especially that of HBL and SCBNL. In order to achieve the objective, both descriptive and analytical research design has been followed. The study focuses on the examination of relationship between those variables that influence financial decisions of the sampled banks.

3.2 Population and Sample

The population for this study comprises thirty commercial banks currently rating in the country. All the banks perform the functions under rules, regulations and directives of Nepal Rastra Bank. The sample consists of two judgmentally selected banks; Himalayan bank limited and standard chartered bank Nepal limited.

3.3 Sources of Data

Although present study is basically on secondary data, however, necessary suggestions are also taken from various experts both inside and outside the bank whenever required. The necessary data is obtained from the head office of the JVBs, web sites of related JVBs, published balance sheet, profit and loss account and other related statements of accounts as well as the annual reports of the respective banks. Likewise, other related and necessary information are also obtained from the publication of security exchange centre, Nepal Rastra Bank and other publications used for the purpose are book, magazine, newspaper, school of thoughts etc.

3.4 Data processing

Data obtained from the various sources cannot be directly used in their original form. Further they need to be verified and simplified for the purpose of analysis. Data information, figures and facts obtained need to be checked, rechecked, edited and tabulated for computation. According to the nature of data they have been inserted in meaningful tables, which have been shown in shorted in one table and similarly various tables have been prepared in understandable manner, odd data excluded from the table. Using financial and statistical tools data have been analyzed and interpreted.

3.5 Method of data analysis

For the purpose of study, the data collected and obtained are scanned and tabulated under various heads. Selection of suitable tools and proper analysis makes data effective. The researcher has used two achieve the results. Here is the brief discussion of both the tools, which are used to analyze and interpreted the financial performance of two JVBs i.e. HBL and SCBNL.

- Financial tools
- Statistical tools

3.5.1 Financial tools

Financial tools are those, which are used for the analysis and interpretation of financial data. Those tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. For the sake of analysis, following various financial tools have been used in order to meet the purpose of the study.

3.5.1.1 Ratio analysis

Ratio analysis helps to summarize the large quantities of financial data and to make qualitative judgments about the firm's financial performance. Ratio is the expression of one figure in terms of another. It is the expression of relationship between the mutually independent figures. In financial analysis, ratio is used as an index of yard stick for evaluating the financial position and performance of firm. Ratio analysis is very much powerful and widely used tool of powerful and widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of firms as well as it historical performance and current financial conditions can be determined. It helps the analysis to make qualitative judgment in about the financial position and performance of the firm. Therefore it helps to establish relationship among various ratios and interpret there on.

There are numerous ratios to analyze and interpret the financial position of a firm. However, for our purpose, only important and relevant ratios are used to check the financial health of two JVBs in Nepal, which are as below:

3.5.1.1.1 Liquidity ratios

Liquidity ratios are used to judge the firm's ability to meet short term obligation. These ratios give insights into the present cash solvency of the firms and its ability to remain solvent in the event of adversities. It is the comparison between short term obligation and the short term resources available to meet these obligations. The following ratios are developed and used for our purpose to find the liquidity positions of the two joint venture banks.

a) Current ratio

A current ratio is the relationship between current assets and current liabilities. It is calculated by dividing the current assets by current liabilities which is expressed as follows:

Current ratio = current assets/ current liabilities

Current ratio is a measure of firm's solvency. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule, a current ratio of 2:1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of short coming, it is crude and quick measure of the firm's liquidity.

A higher ratio indicates better liquidity position. However a very high ratio may be indicator of slack management practice, as it might signals excessive inventories for the current requirements and poor credit management in terms of over expanded account receivable.

b) Cash and bank balance to current and saving deposit ratio

The ratio shows the ability of banks immediate funds to cover their (current margin, call and saving) deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. The ratio is computed by dividing the cash and bank balance by current and saving deposits.

Cash and bank balance to current and saving deposit ratio=

Cash and bank balance/current and saving deposit

Cash and bank balance comprises cash on hand, foreign cash on hand; cheques and other cash items, current and saving deposit consists of all types of deposits excluding fixed deposits.

The ratio measures the ability of bank to meet its immediate up to total deposit legations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdraw of deposits. High ratio indicates sound liquidity position of the bank however too high ratio is not enough as it reveals the under utilization of fund.

c) Cash and bank balance to total deposit ratio

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits. This ratio is calculated using following formula.

Cash and bank balance to total deposit ratio= cash and bank balance/total deposit

The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favourable for the bank because it produces adverse effect on profitability due to idleness of high interest bearing fund.

d) NRB balance to current and saving deposit ratio

This ratio is computed by dividing the balance held with Nepal Rastra bank by current and saving deposit

NRB balance to current and saving deposit ratio=

NRB balance/current and saving deposits

Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure the smooth functioning and sound liquidity position of the bank, as per the directive of Nepal Rastra Bank. The required ratio is 8%.therefore the ratio measures whether the bank is following the direction of NRB or not.

e) NRB balance to fixed deposit ratio

The ratio is computed by dividing the balance held with Nepal Rastra Bank by fixed deposit accepted.

NRB balance to fixed deposit ratio=NRB balance/fixed deposit

It shows the percentage of amount deposited by the bank in Nepal Rastra Bank as compared to the fixed deposits. According to the direction of NRB, this ratio should be maintained 6%. Hence the ratio calculated finds whether the bank has obeyed the direction of central bank or not.

f) Fixed deposit to total deposit ratio

It is calculated as follows:-

Fixed deposit to total deposit ratio=fixed deposit/total deposit

The ratio shows what percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long term loans and low ratio means bank should invest the fund of low cost in short term loans.

3.5.1.1.2 Leverage ratio

Leverage or capital structure ratios are used to judge the long term financial position of the firm. It evaluates the financial risk of long term creditors, greater the proportion of the owner’s capital in the capital structure, lesser will be the financial risk borne by supplier of credit funds.

Debt is more risky from the firm’s point of view. The firm has legal obligation to pay interest to debt holders irrespective of the profit made or losses incurred by the firm. But use of debt is advantageous to shareholders on two ways:

- They can retain control on the firm with a limited stake
- There earning is magnified when rate of return of the firm on total capital is higher than the cost of debt.

However, the earning of shareholders reduces if the cost of debt becomes more than the overall rate of return, in case, there is the threat of insolvency. Thus the debt has two folded impact-increase shareholder earning-increase risk. Therefore a firm should maintain optimal mix of investors and outsiders fund for the benefit of owners and its stability. Under this group, the following ratios are calculated to test the optimality capital structure.

a) debt-equity ratio

The ratio is calculated by dividing total debt by shareholders equity

Debt-equity ratio=total debt/shareholders equity

Total debt consists of all interest bearing long term and short term debts. These include loans and advances taken from other financial institutions, deposits etc. shareholders equity includes paid up capital, reserve and surplus and undistributed profit.

The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners. a high ratio shows that the creditors' claims are greater than those of owners. Such a situation introduces inflexibility in the firm's operation due to increasing interference and pressures from creditors. Low ratio implies a greater claim of owners than creditors. In such a situation shareholders are less benefited if economic activities are good enough. Therefore the ratio should neither be too high nor too low.

b) Debt asset ratio

The ratio can be calculated by dividing total debt by total assets.

Debt asset ratio=total debt/total assets

This ratio shows the contribution of creditors in financing the assets of the bank. High ratio indicates that the greater portion of the bank's assets have been financed through outsiders fund. The ratio should neither be too high nor too low.

c) Debt to total capital ratio

The ratio is obtained by dividing total debt by total capital of the firm.

Total debt to total capital ratio=total debt/total capital

Total capital refers to the sum of interest bearing debt and shareholders' equity. It shows the proportion of debt in total capital employed by the bank. High ratio indicates greater claim of creditors. Contrary to it, low ratio is the indication of lesser claim of outsiders. For the sound solvency position, the ratio should not be too high or too low.

d) Interest coverage ratio

The ratio is calculated by dividing net profit before interest and tax by interest charges.

Interest coverage ratio=net profit before interest and tax/interest charges

The ratio, also known as times interest earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. It indicates the extent to which the earning may fall without causing any embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.

3.5.1.1.3 Turnover ratios

Turnover ratios also known as utilization ratios or activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses investment and economic resources at its command. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns the bank produces loans, advances and other innovations, so it sales the same.

High ratio depicts the managerial efficiency in utilizing the resources they show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity. Depending upon the special nature of assets and sales made by the bank, following ratios are tested;

a) Loans and advances to total deposit ratio

The ratio is computed by dividing total loans and advances by total deposit

Loans and advances to total deposit ratio=loans and advances/total deposits

Loans and advances consist of loans, advances, cash credit overdrafts, bills purchased and discounted.

The ratio indicates the proportion of total deposits invested in loans and advances. High ratio means the greater use of deposit for investing in loans and advances. But very high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector.

b) Loans and advances to fixed deposit ratio

The ratio is calculated by dividing loans and advances by fixed deposit

Loans and advances to fixed deposit ratio=loans and advances/fixed deposit

The ratio indicates what proportion of fixed deposit has been used of loans and advances. Since fixed deposit carry high rate of interest, so fund collected need to be invested in such sectors, which yield at least sufficient return to meet the obligation. High ratio means utilization of the fixed deposit in form of loans.

c) Loans and advances to saving deposit ratio

The ratio is calculated using following formula;

Loans and advances to saving deposit ratio=loan and advances/saving deposit

The ratio measures what extent of saving deposit has been turned over to loans and advances. Saving deposit also, being an interest bearing liability needs to be invested in productive sector. High ratio indicates greater utilization of the saving deposits in advancing loans.

d) Investment to total deposit ratio

The ratio is obtained by dividing investment by total deposits collected in the bank;

Investment to total deposit ratio=investment/ total deposit

The ratio shows how efficiently the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds.

3.5.1.1.4 Asset quality ratio

As explained earlier, turnover ratios measure the turnover of economic resources in terms of quality. Only the investment is not of great significance, but the return from them with minimum default in payment by debtors is significant. A firm may be in a state of enough profit and though unable to meet liabilities therefore, asset quality ratios are intended to measure the quality of assets contained by the bank. Following ratios are computed in this group.

a) Loan loss coverage ratio

The ratio is calculated by dividing provision for loan loss by total risk assets;

Loan loss coverage ratio= loan loss provision/total risk asset

For the purpose, risk asset constitute loans and advances, bills purchased and discounted.

Nepal Rastra Bank has directed commercial banks to maintain provision for loan loss on the basis of category of loans and risk grade. The ratio therefore, measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky.

b) Loan loss provision to total income ratio

The ratio is obtained by dividing loan loss provision by total income;

Loan loss provision to total income ratio=

Loan loss provision / total income

The ratio shows what portion of total income has been held as safety cushion against the possible bad loan. Higher ratio indicates that the greater portion of loan advanced by the bank is inferior in quality. Low ratio means that the bank has provided most of its loans and advances in secured sector.

c) Loan loss provision to total deposit ratio

The ratio is obtained by dividing the provision for loan loss by total deposit

Loan loss provision to total deposit ratio= loan loss provision/total deposit

It shows the proportion of banks deposit held as loan loss provision in relation to the total deposit collected. Higher ratio means quality of asset contained by the bank in form of loan is not much satisfactory. Low ratio is the index of utilization of resources in healthy assets.

3.5.1.1.5 Profitability ratios

Profitability ratios are designed to highlight the end result of the business activities, which in the imperfect world of ours is the sole creation of overall efficiency of business unit.

A company should earn profits to survive and grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business, to be able to obtain funds from investors for expansion and growth and to contribute towards the special overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly. Owners want to get a reasonable return from their investment. To meet the objective of the study, following ratios are calculated in this group;

a) Return on total asset

The ratio is calculated by dividing net profit after tax by total asset of the bank.

Return on total asset=net profit after tax/total asset

It measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank.

b) Return on total deposit

The ratio is calculated by dividing net profit after tax by total deposit

Return on total deposit=net profit after tax/ total deposit

The ratio shows the relation of net profit accumulated. Higher ratio is the index of strong profitability position.

c) Total interest earned to total interest income ratio

The ratio is obtained by dividing the total interest expenses by total interest incomes;

Total interest expenses to total interest income=total interest expenses/total interest income

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view.

d) Interest earned to total assets ratio

The ratio is calculated by dividing interest income by total assets of the bank

Interest earned to total asset ratio=interest earned/total asset

The ratio shows percentage of interest income as compared to the asset of the bank. High ratio indicates the proper utilization of banks assets for income generating purpose. Low ratio represents unsatisfactory performance.

e) Staff expenses to total income ratio

The ratio is obtained by dividing the staff expenses by total income;

Staff expenses to total income ratio=staff expenses/ total income

Staff expenses include the salary and allowances, contribution to the provident fund, staff training expenses and other allowances and expenses made for staff, whose contribution is of great significance in the success of the bank. High ratio indicates that the major portion of income is used for staff. From the firm’s point of view, low ratio is advantageous. But the staff prefer high ratio, as it is the result of higher level of facilities and benefits provided to them.

f) Office operation expenses to total income ratio

The ratio is obtained by dividing office operation expenses by total income;

Office operation expenses to total income ratio=office operation expenses/total income

It shows the percentage of income spent for day to day operation of the bank, as it is the reflection of operational efficiency.

3.5.2 Income and expenditure analysis

This is a tool with help of which the components of income and expenditure can be compared between two competitive firms. By this analysis, one is able to conclude which source of income and expenses are dominant in the related concerns. Under income analysis, overall is split up into major headings; interest income, commission and discount, exchange gain and other income. Under expenditure analysis entire operating expenses are split up into three major headings- interest expenses, employee expenses and office operation expenses.

3.5.3 Least square linear trend

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term, on the basis of the tendencies in the dependent variable in the past period. The straight line trend implies that irrespective of the seasonal and cyclic as well as irregular fluctuation, the trend value increases or decreases by absolute amount per unit of time. The linear trend values from a series in arithmetic progression.

Mathematically,

$Y = a + bX$

Where, Y = the value of dependent variable

a = Y-intercept

b = slope of the trend line

X = value of the independent variable

3.6 limitations of financial analysis

From the above discussion, it has been evident that financial performance analysis is of great significance for investor, creditors, management, economists and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to the future. However, it is not free from drawbacks. Its limitations are listed below:

a) Historical nature of financial statement

The basic nature of statement is historical. Past can never be precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

b) No substitute for judgment

Financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why it may lead to faculty conclusion if used by unskilled analyst.

c) Reliability of figures

Reliability of analysis depends on reliability of figures of the financial statement under security. The entire working of analysis will be vitiated by manipulating in the income statement, window dressing in the balance sheet and such other facts.

d) Single year analysis is not much valuable

The analysis of these statements relating to single year only will have limited use and value. From this one cannot draw meaningful conclusion.

e) Result may have different interpretation

Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of insufficiency of the management due to under utilization of fund.

4. Presentation and Analysis of Data

The chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In the course of analysis, data gathered from the various sources have been inserted in the tabular form. Various table prepared for the analysis purpose have been shown in annexes. Using financial and statistical tools, the data have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sampled banks has especially been analyzed in cross sectional manner. Specifically, the chapter includes analysis and interpretation of the following:-

- Ratio analysis
- Income and expenditure analysis
- Least square linear trend analysis

4.1 Ratio analysis

Ratio analysis has been adopted to evaluate the financial health, operating result and growth of the sampled banks. In order to analyzed and interpret the tabled data, the following ratios has been used.

- Liquidity ratios
- Leverage ratios
- Turnover ratios
- profitability ratios

4.1.1 Liquidity ratios

Liquidity ratios have been employed to test the ability of the banks to pay immediate liabilities. These include current ratio, cash and bank balance to total deposit ratio, NRB balance to current and saving deposit ratio, NRB balance to fixed deposit ratio and fixed deposit to total deposit ratio.

a) Current ratio

Current ratio= $\frac{current\ assets}{current\ liabilities}$

annex 1 shows that current ratios of HBL for the study period remained:-1.48:1, 1.30:1,1.36:1, 1.40:1, 1.39:1, 1.46:1 respectively from the year 16^{th} July 2004, 2005, 2006, 2007, 2008 and 2009. Similarly the ratios of SCBNL for the corresponding period remained 1.29:1, 1.19:1, 1.14:1, 1.16:1, 1.20:1, and 1.25:1.

The ratios of the both bank seems slightly decreasing in first three years and then slightly increasing in later years. In HBL the ratio did not fall below 1.30:1 whereas in SCBNL the ratio has fallen on to 1.14:1. Mean of the ratios in HBL was slightly greater than that of SCBNL but both of the banks could not maintain the conventional standard of 2:1. Having a glance at the nature of assets and liabilities of the commercial banks, the ratio below the stated standard may be accepted as satisfactory. But it signifies that the banks have the poor liquidity position. The bank may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of liabilities may lead the banks to lose their goodwill. They will have the problem in winning the confidence of current depositors and short term lenders. Between the two banks HBL seems to be slightly in the better position.

b) Cash and bank balance to current and saving deposit ratio

Cash and bank balance to current and saving deposit ratio=

$$\frac{cash\ and\ bank\ balance}{current\ and\ saving\ deposit}$$

Annex2 shows that the ratios remained 10.71%, 13.17%, 12.55%, 11.25%, 8.75%, and 6.78% in HBL in respective years of the study period. Similarly the ratio remained 6.22%, 9.22%, 10.88%, 6.39% and 10.08% in SCBNL in respective years. The ratios of both the banks revealed fluctuating trend over the period, of HBL remained highest in the year 2003 and in SCBNL it remained highest in 2004, in average the ratio remained higher in HBL than SCBNL, which indicates that the former is more efficient in paying the immediate obligations.

[

c) Cash and bank balance to total deposit ratio

Cash and bank balance to total deposit ratio= $\frac{cash\ and\ bank\ balance}{total\ deposit}$

Annex 3 depicts that the ratios were 6.79%, 9.42%, 9.09%, 8.11%, 6.48% and 4.82% in HBL in respective years of the study period. Similarly the ratios remained 5.21%, 8.06%, 9.56%, 5.74%, 5.53%, and 8.19% in SCBNL in respective years of the period. Glancing at the nature of the ratios, trend of cash and bank balance to total deposit of both banks appeared fluctuating. In HBL the ratio reached highest in the year 2005 whereas the ratio in SCBNL was in 2006. Both of the banks seem almost same in ability to repay the deposits.

d) NRB balance to current and saving deposit ratio

NRB balance to current and saving deposit ratio= $\frac{NRB\ balance}{current\ and\ saving\ deposit}$

From the annex 4 the ratios of HBL are found to be 5.89%, 8.02%, 10.19%, 8.96%, 5.58% and 5.95% in the respective years of the study period. Similarly the ratios of SCBNL remained 2.83%, 6.95%, 8.25%, 3.98%, 3.88% and 8.05%. The calculated ratios little bit fluctuation in study period of both banks. The ratio remained highest in third year in HBL and it is same in SCBNL. In HBL the ratio dropped below the minimum standard of 8% prescribed by the NRB in 1^{st}. 5^{th} and 6^{th} year where as in SCBNL the ratio is under 8% in 1^{st}, 2^{nd}, 4^{th} and 5^{th} year.

e) NRB balance to fixed deposit ratio

NRB balance to fixed deposit ratio= $\frac{NRB\ balance}{fixed\ deposit}$

Annex5 shows that the ratios reached 12.68%, 35.97%, 34.52%, 26.26%, 17.26%, and 15.51% in the respective years under the study of HBL, similarly the ratios of SCBNL were16.61, 58.88, 107.39, 48.87, 35.09, and 50.48 in the corresponding years. The ratios of both banks were fluctuating every year during the study period. In HBL it was highest in 2005 whereas in SCBNL it was highest in 2006. The calculated ratios shows that in all of the years the ratio remained higher than 6%, the standard set by NRB in both banks.

f) Fixed deposit to total deposit ratio

Fixed deposit to total deposit ratio= $\frac{fixed\ deposit}{total\ deposit}$

annex6 highlights that the ratios of HBL remained 29.43%, 15.25%, 21.39%, 24.61%, 23.97%, 27.29% in the respective years of study period similarly the ratios of SCBNL were 14.30%, 10.38%, 6.75%, 7.32%, 9.26%, 12.96% in the corresponding years. It seems that the ratios of HBL are little bit consistent in comparison with SCBNL. In HBL the ratio was greatest in first year and it was least in second year in SCBNL the ratio was greatest in first year and it was least in third year. It suggests that greater portion of total deposit in HBL has been occupied by fixed deposit in contrast to SCBNL.

4.1.2 Leverage ratios

Leverage ratios have been analyzed and interpreted to judge the long term financial health of the sampled banks. These include debt equity ratio, equity ratio and interest coverage ratio.

a) Debt equity ratio

Debt equity ratio= $\frac{total\ debt}{share\ holders\ equity}$

Annex7 depicts that the debt equity ratios of HBL were 1948.85%, 1730.93%, 1424.85%, 1340.80%, 1242.21%, and 1177.04% in the respective years of study period. Similarly the ratios of SCBNL remained 1066.77%, 996.63%, 1078.14%, 986.99%, 1044.49%, and 985.29% in the corresponding year. In both of the bank portion of debt seems too much higher on comparison to equity. Both of the banks are highly levered. Capital structure of both banks seems riskier. In comparison between two banks, HBL seems more risky.

b) Debt asset ratio

Debt asset ratio= $\frac{total\ debt}{total\ assets}$

Annex8 explains that the ratios of HBL remained 80.89%, 78.79%, 76.19%, 74.23 %, 74.47%, and 75.37%, in the respective years of the study period. In the similar way the ratios of SCBNL were 71.46%, 64.96%, 68.20%, 71.33%, 71.10%, and 72.91% in the corresponding years the ratios showed that most of the assets have been financed by the interest bearing debts of both banks. Both of the bank's capital structure seems riskier.

C) Debt to total capital ratio

Debt to total capital ratio= $\frac{total\ debt}{total\ capital}$

Annex9 highlights that the ratios of HBL remained 95.11%, 94.53%, 93.44%, 93.05%, 92.54%,92.16% in the respective years of study period in the similar way the ratios of SCBNL for the corresponding years remained 91.42%, 90.88%, 91.51%, 90.80%, 91.26%, 90.78%.

The ratios of HBL were declining slightly during the study period but the ratios of SCBNL remained almost constraint. The analysis makes it obvious that debt capital i.e. outsiders fund was dominant in the capital structure of both of the banks. The proportion of debt in total capital is greater in HBL than SCBNL.

d) Interest coverage ratio

Interest coverage ratio= $\frac{net\ profit\ before\ interest\ and\ tax}{interest\ charge}$

Annex10 reveals that the ratio of HBL remained 80.69%, 76.10%, 73.20%, 74.97%, 81.23%, and 83.62% in the respective years of study period. Accordingly the ratios of SCBNL remained 95.03%, 96.89%, 100.69%, 99.39%, 103.93%, and 100.57% in the corresponding years. The ratios of HBL depicted decreasing trend up to third year and then increasing gradually in the later years, whereas the ratios of SCBNL seems almost constant in the study period. In all the years of study the ratios seems satisfactory of both banks.

4.1.3 Turnover ratios

Turnover ratios have been used to evaluate the efficiency with have managed and utilized their assets. These include loans and advances to total deposit ratio, loans and advances to fixed deposit ratio, loans and advances to saving deposit ratio and investment to total deposit ratio,

a) Loans and advances to total deposit ratio

Loans and advances to total deposit ratio

$$= \frac{loans\ and\ advances}{total\ deposit}$$

Annex11 exhibits that the ratios of HBL remained 47.87%, 47.61%, 54.30%, 50.07%, 55.27%, and 56.56% in the respective years of study period. Similarly the ratios of SCBNL remained 33.87%, 30.36%, 30.29%, 42.11%, 38.74%, and 42.61% in the corresponding years. The ratios of HBL fluctuated throughout the study period. It descended to 56.56% in the last year from 47.87% in the first year. Whereas the ratios of SCBNL decline in first two years then after it started to increase and reached up to 42.61% in the last year. Comparing between the two banks HBL seems more efficient in using its deposits loans and other profitable schemes.

b) Loans and advances to fixed deposit ratio

Loans and advances to fixed deposit ratio=

$$\frac{louns\ and\ advances}{fixed\ deposit}$$

Annex12 highlights that the ratios of HBL remained 162.63%, 312.03%, 253.74%, 203.43%, 230.58% and 207.26% in the respective years of study period. Similarly the ratios of SCBNL remained 236.84%, 292.30%, 448.74%, 574.93%, 418.26% and 328.56% in the corresponding years. The ratios of both banks seem to fluctuate throughout the study period. In the context of HBL the ratio had reached up to 312.03%in the second from 162.63% in first year. Whereas in SCBNL the ratio is 236.84% is least in first year and it is 574.93% is most in the fourth year. SCBNL seems to be more efficient in utilizing its fixed deposits in comparison to HBL.

c) Loans and advances to saving deposit ratio

Loans and advances to saving deposit ratio

$= \frac{loans\ and\ advances}{saving\ deposit}$

Annex13 highlights the ratios of HBL remained 97.26%, 92.00%, 101.63%, 96.67%, 100.40% and 107.68% in the respective years of study period. Similarly the ratios of SCBNL remained 56.81%, 53.56%, 50.19%, 62.49%, 61.21% and 68.89% in the corresponding years. The ratios of HBL seem fluctuating trend up to third year then after it’s in increasing trend. Whereas the ratios of SCBNL seem declining trend in first three years and it seems increasing trend in the later years. HBL seems more efficient than SCBNL in utilizing its saving deposits in loans and advances. But that doesn’t mean that the turnover position of SCBNL is really poor because the portfolio management of the bank depends upon its lending policy.

d) Investment to total deposit ratio

Investment to total deposit ratio = $\frac{investment}{total\ deposit}$

Annex 14 exhibits that the ratios of HBL remained 49.18%, 48.43%, 42.21%, 47.11%, 41.10% and 39.34% in the respective years of study period, whereas the ratios of SCBNL remained 58.57%, 55.22%, 53.68%, 50.18%, 55.67% and 54.98% in the corresponding years. The ratios of HBL seem to decline in general. The ratio has fallen to 39.34% in the last year from the 49.18% in the first year. In the context of SCBNL the ratio has fallen in first four years. In this period the ratio had reached to 50.18% in the fourth year from 58.57% in the first year. Summarizing the data, both of the banks have given less priority to the investment sector. In comparison between two banks SCBNL has given more priority in investment than HBL.

4.1.4 Asset quality ratios

Asset quality ratios intend to measure the quality of assets owned by the banks. These include loan loss coverage ratio, loan loss provision to total income ratio, loan loss provision to total deposit ratio.

a) Loan loss coverage ratio

Loan loss coverage ratio = loan loss provision/ total risk asset

Annex 15 highlights that the ratios of HBL remained 1.86%, 2.02%, 1.55%, 0.47%, 0.99% and 0.53% in the respective years of study period. Similarly the ratios of SCBNL remained 1.39%, 0.04%, 0.36%, 0.36%, 0.53% and 0.35% in the corresponding years. The ratio reached highest in second year and lowest in last year of HBL. But with respect to SCBNL the ratio is highest in first year and it is least in second year. It indicates that SCBNL has been more successful to foresee the quality of loans lent. Conversely the assets possessed by HBL have higher degree of risk as compared to that of SCBNL.

b) Loan loss provision to total income ratio

Loan loss provision to total income ratio = $\frac{loan\ loss\ provision}{total\ income}$

Annex 16 highlights that the ratios of HBL remained 11.98%, 13.94%, 12.25%, 3.34%, 7.10% and 4.19% in the respective years of study period. Similarly the ratios of SCBNL remained 5.18%, 0.15%, 1.48%, 1.90%, 2.77% and 1.86% in the corresponding years. The ratio of HBL has increased in second year, and then it started to decrease for two years. It has been reached to 3.34% in least in third year and 13.94% in most in second year. In the context of SCBNL, the ratio has been reached up to 5.18% in least, which describes that HBL has kept a greater portion of income as loan loss provision. HBL has invested in riskier loans than SCBNL.

c) Loan loss provision to total deposit ratio

Loan loss provision to total deposit ratio= $\frac{loan\ loss\ provision}{total\ deposit}$

Annex 17 highlights that the ratio of HBL remained 0.89%, 0.96%, 0.84%, 0.23%, 0.54% and 0.30% in the respective years of the study period. Similarly the ratios of SCBNL remained 0.47%, 0.01%, 0.11%, 0.15%, 0.20% and 0.14% in the corresponding years. The ratios of both banks seem fluctuating during the study period. In the context of HBL the ratio has increased in second year than it decreased for two years. In the fifth year the ratio has again increased and at last it has been reached to 0.30%. Talking about the SCBNL the ratio has been fallen to 0.14% in the last year from 0.47% in the first year. Summary of the data says the ratios of HBL are greater than that of SCBNL in an average. As we discussed earlier HBL seems to have invested in riskier assets than SCBNL.

4.1.5 Profitability ratios

Profitability ratios have been employed to measure the operating efficiency of the sampled banks. For the purpose return on asset, return on total deposit, total interest expenses to total interest income ratio, staff expenses to total income ratio, interest earned to total asset ratio and office operation expenses to total income ratio have been analyzed and interpreted.

a) Return on total asset

Return on total asset= $\frac{net\,profit\ after\ tax}{total\ assets}$

Annex 18 demonstrates that the ratios in HBL remained 1.13%, 0.90%, 1.06%, 1.10%, 1.55% and 1.46% in the respective years of study period. Similarly the ratios of SCBNL remained 2.58%, 2.41%, 2.27%, 2.46%, 2.55% and 2.41% in corresponding years. The ratios of HBL seemed almost constant during the study period. All the ratios are around 1%. Similarly the ratios of SCBNL are around 2%. There is not much fluctuation in the ratios of both banks. Comparing between the sampled banks in all the years the returns of SCBNL are greater than HBL. That means SCBNL has been better in utilizing its resources than HBL.

b) Return on total deposit

Return on total deposit= $\frac{net\,profit\ after\ tax}{total\ deposit}$

Annex 19 demonstrates that the ratios of HBL remained 1.26%, 1.00%, 1.19%, 1.24%, 1.72% and 1.63% in the respective years of study period. Similarly the ratios of SCBNL remained 3.02%, 2.70%, 2.54%, 2.78%, 2.85% and 2.80% in the corresponding years. There are not many variations in the sampled banks ratios. In HBL all the ratios lies between1% to 2% and in the SCBNL the ratios lies between 2.50% to 3.05%. Comparing between two banks ratios in all the years, the ratios of SCBNL seem greater than HBL. From the data it can be concluded that SCBNL has used its deposits in proper way than HBL.

c) Total interest expenses to total interest income ratio

Total interest expenses to total interest income rat= $\frac{total\ interest\ expenses}{total\ interest\ income}$

Annex 20 highlights that the ratios of HBL remained 50.31%, 46.12%, 39.45%, 38.85%, 39.89% and 43.22% in the respective years of study period. Similarly the ratios of SCBNL remained 29.58%, 25.48%, 26.46%, 24.00%, 25.48% and 29.25% in the corresponding years. From this point of view SCBNL seem again better than HBL. In all the years of study period, the ratios of HBL are higher than SCBNL, which means that SCBNL has been successful to collect cost bearing funds in fewer costs.

d) Interest earned to total asset ratio

Interest earned to total asset ratio= $\frac{interest\ earned}{total\ asset}$

Annex 21 shows that the ratios of HBL remained 2.79%, 2.37%, 1.98%, 2.01%, 2.20% and 2.28% in the respective years of study period. Similarly the ratios of SCBNL remained 1.62%, 1.21%, 1.16%, 1.16%, 1.17% and 1.00% in the corresponding years. The ratios of HBL have fallen in first two years then it increases till the end of study period. The ratios of SCBNL decreased all over the study period except in 5th year. In all of the years the ratios of HBL seem greater than SCBNL. The conclusion of the data tells us that HBL managed the assets more effectively to earn interest.

e) Staff expenses to total income ratio

Staff expenses to total income ratio= $\frac{staff\ expenses}{total\ income}$

Annex 22 demonstrates that the ratios of HBL remained 7.30%, 8.26%, 10.03%, 10.14%, 11.48% and 12.59% in the respective years of study period. Similarly the ratios of SCBNL remained 8.74%, 8.53%, 8.50%, 9.42%, 9.77% and 10.13% in the corresponding years. The ratios of both banks seem to increase year by year, except in the third year of SCBNL. That means the expenses over the staff is increasing year by year. In the first year of study the ratio of SCBNL is higher but in the remaining years the ratios of HBL are higher than SCBNL. That means SCBNL has been successful in keeping the staff expenses low.

f) Office operation expenses to total income ratio

Office operation expenses to total income ratio= $\frac{office\ operation\ expenses}{total\ income}$

Annex 23 highlights that the ratios of HBL remained 11.20%, 12.17%, 13.88%, 15.75%, 16.14% and 15.80% in the respective years of study period. Similarly the ratios of SCBNL remained 13.19%, 20.68%, 17.65%, 16.28%, 12.26% and 11.59% in the corresponding years. The ratios of HBL seem to increase in first five years then it has been decreased in last year. But in context of SCBNL the ratio has been increased in the second year then it decreased all over the study period. That means SCBNL has well managed its office operation expenses with comparison to HBL.

4.2 income and expenditure analysis

Income and expenditure analysis evaluates major sources of income and expenses. This helps the analyst to conclude the areas to be forced for invest and possibilities for effective control over expenses. The analysis covers the followings:

- Income analysis
- Expenditure analysis

4.2.1 Income analysis

Commercial banks generate income from the investment made in various sectors. The banks, being service oriented organizations, do not produce physical goods. They produce loans and advances and innovations and sell the same. In the courses of carrying out their functions, they receive income from various sources which have been split up into the following major headings:

- Interest
- Commission and discount
- Exchange gain
- Other income

a) Interest income

Interest is the main and major source of income in the commercial banks. These banks charge interest on loans and advances provided. They also receive interest from investment made in government securities, debentures and interbank lending.

Annex 24 shows that the interest income in HBL remained 82.67%, 82.59%, 81.98%, 82.16%, 79.63%, and 82.17% in the respective years of study period. The ratios seem to be almost constant except in fifth year. In that year the ratio has fallen to 79.63%. in each year interest income seemed to cover almost four fifth of the total income. Hence, interest income remained dominant in the total income.

Annex 25 shows that the ratios of SCBNL remained 70.06%, 66.59%, 65.79%, 67.16%, 69.10% and 71.63% in the respective years of study period. The ratios had little bit fluctuating trend. It had been reached to 71.63% in highest in the sixth year and it was lowest in third year that is 65.79%. Comparing between two banks interest income has occurred a bigger portion in HBL than SCBNL.

b) Commission and discount

Commercial banks render various types of services to their customers. They provide remittance facility, guarantees, standing instructions, open letter of credit, purchase and discount bills of exchange along with other agency functions. For making such facilities available, they receive certain charges in form of commission and discount. It also covers significant portion of total income.

Annex 24 depicts that the commission and discount in HBL remained 7.31%, 7.05%, 8.15%, 7.54%, 8.10% and 8.94% in the respective years. Similarly the ratios in SCBNL remained11.29%, 14.31%, 12.55%, 11.72%, 12.94% and 11.22% in corresponding year in annex 25. The ratios in SCBNL seemed fluctuating than HBL. Commission and discount had occupied a greater portion out of total income in SCBNL than in HBL.

c) Exchange gain

One of the major functions of the commercial banks is transaction of foreign currency. Joint venture banks are allowed to purchase and sell foreign currencies under the directives of NRB and rules, regulations and laws effect. Income under this heading encompasses the trading gain derived from the exchange of foreign currencies due to the fluctuation in the exchange rate.

Annex 24 shows that the ratios of HBL remained 7.52%, 7.53%, 7.39%, 7.79%, 7.90% and 7.01% in the respective years of study period. Similarly annex 25 shows that the ratios in SCBNL remained 15.76%, 15.46%, 17.23%, 16.93%, 16.46% and 15.68% in the corresponding years. The ratios in HBL seemed almost constant except in fifth year. But in SCBNL the ratio seem little bit fluctuating. Comparing between two banks SCBNL has been successful in trading with foreign currency.

d) Other income

Income not included in any of the above headings comes under this heading. Other income comprises revaluation gain and non-operating income such as dividend.

Annex 24 shows that the ratios in HBL remained 2.48%, 2.81%, 2.45%, 2.48%, 2.56% and 1.86% in the respective years of study period. Similarly the annex 25 shows that the ratios of SCBNL remained 2.87%, 3.62%, 4.40%, 4.18%, 1.47% and 1.46% in the corresponding years. In the context of other income both banks performance seemed almost similar. These headings occupy a lower portion of total income in both of the banks.

4.2.2 Expenses analysis

Expenses are the cost incurred in course of operating various activities. The banks need to pay interest for the deposits and borrowings to handle all other resources. There is a team of personnel whom the bank pays some cost and provides other facilities. Besides, a significant portion of income is spent for daily operation. For the study purpose evaluation of the following form of expenses has been made:

- Interest expenses
- Employees' expenses
- Office operating expenses

a) Interest expenses

It is one of the major parts of operating expenses. Commercial banks pay interest on various types of deposits, loans and advances taken from other banking and financial institutions, government etc. since transfer of the money from excess unit to the deficit unit is the significant function of the commercial banks, interest occupies almost three fifth of the total operating expenses.

Annex 26 highlights that interest expenses in HBL remained 69.20%, 65.08%, 57.48%, 55.20%, 53.48% and 55.56% in the respective years of study period. Similarly annex 27 highlights that the ratios in SCBNL remained 48.57%, 36.73%, 39.96%, 38.54%, 43.78% and 49.09% in the corresponding years.

Both of the banks ratios have fluctuating trend. In HBL the ratio has decreased for five years than it increased in last year. Talking about SCBNL the ratio is 48.57% in the first year. After some up-down in the ratio it has been reached to 49.09% in the last year. Comparing between two banks ratio SCBNL has been successful to manage interest expenses.

b) Employee expenses

In any organization, manpower plays vital role in the success or failure. Well motivated employees are the ornaments of the organization. In return of the service provided by them, they need to be paid some remuneration which is included under these headings.

Staff expenses include salary, different forms of allowances, incentives etc.

Annex 26 highlights that the ratios in HBL remained 12.15%, 14.11%, 17.83%, 17.54%, 19.33% and 19.70% in the respective years of study period. Similarly the ratios in SCBNL remained 20.49%, 18.47%, 19.51%, 22.53%, 24.29% and 23.74% in the corresponding years in annex 27. Both of the banks ratios seemed increasing trend. In HBL the ratios have been increased almost 7% from first year to the last year where as there is only 3% of growth in the ratio in SCBNL in same period. So SCBNL has again been successful in managing staff expenses.

c) Office operation expenses

For the routine work of the commercial banks, considerable amount of expenses are incurred. All the expenses made for the operation of the bank, such as rent, hire, telephone charge, electricity charge, administrative expenses etc come under this heading. Generally, these expenses occupy second major portion in the composition of total expenses.

Annex 26 reveals that the ratios of HBL remained 18.64%, 20.80%, 24.68%, 27.24%, 27.17% and 24.72% in the respective years of the study period. Similarly annex27 shows that the ratios in SCBNL remained 30.93%, 44.78%, 40.52%, 38.92%, 31.92% and 27.15% in the corresponding years. The ratios of HBL seemed to increase during the study period except in the last year, whereas the ratios of SCBN seemed fluctuating in comparison to HBL. Comparing between two banks HBL seemed to manage office operation expenses well.

4.3 least square linear trend analysis

Trend analysis is very useful to predict the future events on the basis of the past tendencies. This method is based on the assumption that past tendency continues in future. The future trend of any variable is forecasted using the equation.

Where, Yc = the dependent variable

a = y-intercept

b = the slope of the trend

x = year – 2003 (with regard to the data used in the study)

The normal equations fitting the trend equations are

$\sum Y = Na + b \sum X$

$\sum XY = a \sum X + b \sum X^2$

Since $\sum X = 0$, $a = \frac{\sum Y}{N}$, $b = \frac{\sum XY}{\sum X^2}$

With the help of the trend equations future value of the following variable for coming five years have been predicted:

- Total deposit
- Loans and advances
- Investment
- Profit

a) Least square linear trend of total deposit

Annex 28 depicts that ‘a’ i.e. y intercept and ‘b’ slope of the trend line of the total deposit of HBL appeared Rs 24874.19 and 2256.26 respectively. Throughout the review period, total deposit showed increasing trend. On an average, total deposit increased by rs 2256.26 per year in the past trend.

Therefore, trend equation of the total deposit is,

Yc = 24874.19 + 2256.26X

On the basis of trend equation, forecasted total deposit for coming five years would be 31642.97, 33899.23, 36155.49, 38411.75, 40668.01 million respectively.

Annex 29 shows that ‘a’ i.e. y-intercept and ‘b’ i.e. slope of the trend line of the total deposit in SCBNL were 21392.04 and 1368.23 respectively. Total deposit revealed increasing trend throughout the study period. On an average, total deposit increased by 1368.23 per year.

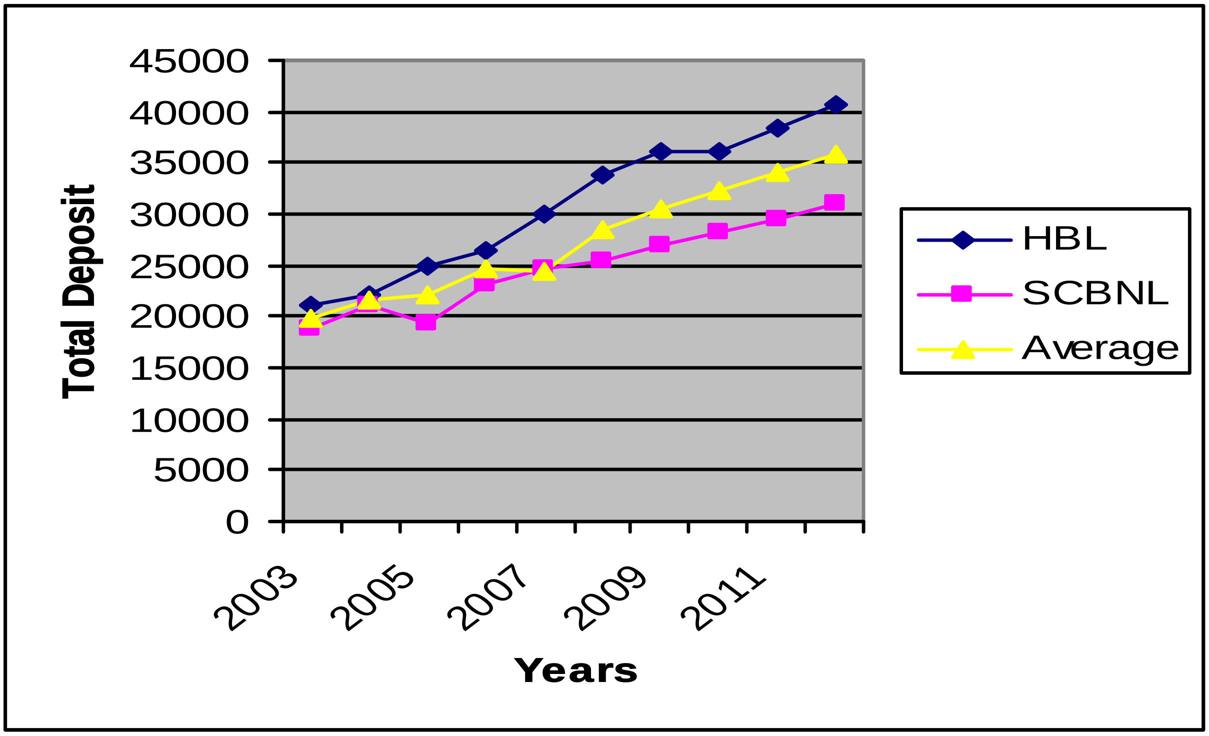
Therefore, trend equation of total deposit is,

Yc = 21392.04 + 1368.23 X

On the basis of the above trend equation, telecasted total deposit for coming five years would be 25496.73, 26864.92, 28233.19, 29601.42 and 30969.65 million respectively.

Trend values of total deposit

Years	HBL	SCBNL	Average
2004	21007.37	18755.63	19881.50
2005	22010.30	21161.44	21585.88
2006	24814.01	19335.09	22074.55
2007	26490.85	23061.03	24775.94
2008	30048.41	24647.02	24347.72
2009	33899.23	25496.73	28569.85
2010	36155.49	26864.92	30382.08
2011	36155.49	28233.19	32194.34
2012	38411.75	29601.42	34006.59
2013	40668.01	30969.65	35818.83



The above chart shows the trend behavior of total deposit in HBL and SCBNL along with a trend line of average of these two banks. In the all years of the trend HBL line has passed the highest area and SCBNL line has possessed lowest area in all the year. Between two banks, average deposit and rate of the increase in total deposit both seem higher in HBL. In other words, total deposit of HBL will increase in higher rate for coming five year if the past trend continues.

b) Least square linear trend of loan and advance

As depicted by annex 29, ‘a’ i.e. y-intercept and ‘b’ i.e. slope of trend line of loan and advances in HBL were Rs 13203.75 and 1668.29 million respectively. Throughout the review period loans and advances revealed increasing trend. On an average, loans and advances increased by Rs 1668.29 million per year in the past period.

Therefore trend equation of loans and advances is,

Yc = 13203.75 + 1668.29X

As per trend equation obtained above, forecasted loans and advances for coming five years would be 18208.62, 19876.91, 21545.20, 23213.49 and 24881.78 million respectively.

As shown by annex 30 ‘a’ i.e. y-intercept and ‘b’ i.e. slope of the trend line of loans and advances of SCBNL were Rs 7937.46 and 1213.87 million respectively. In the study period loans and advances revealed increasing trend and the rate of increase was Rs 1213.87 million per year.

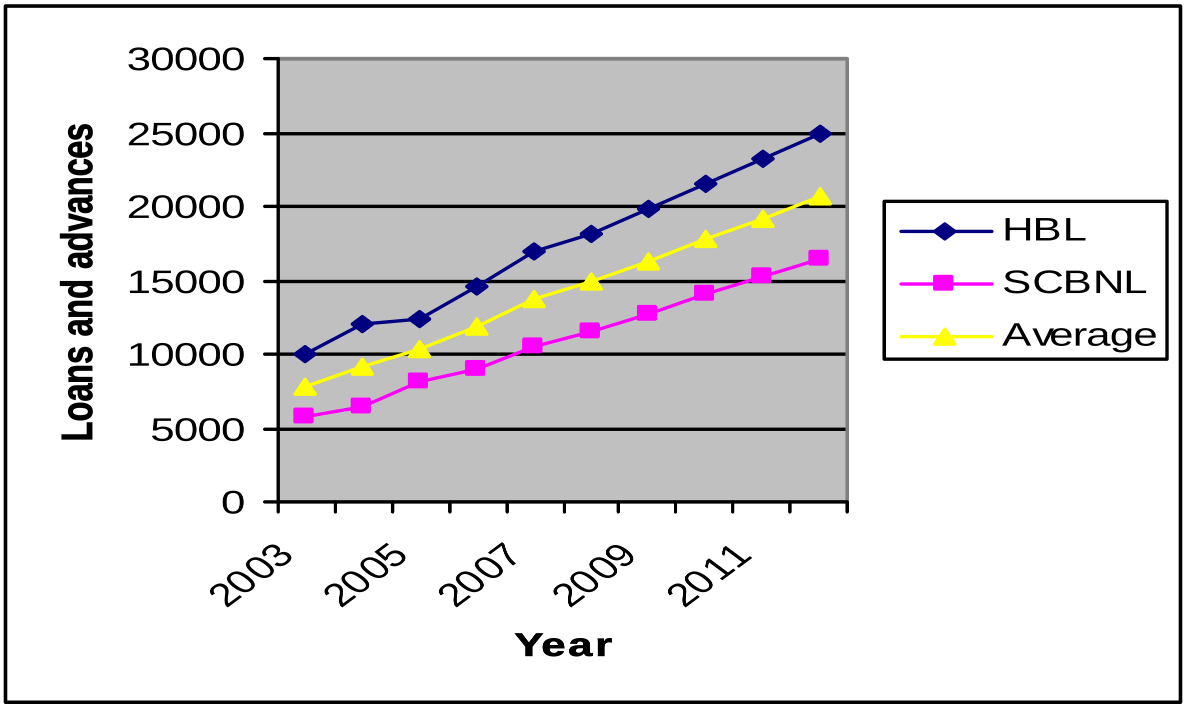
Therefore, the equation of loans and advances is,

Yc = 7937.46 +1213.87X

On the basis of above trend equation, forecasted loans and advances for coming five years would be 11579.07, 12792.94, 14006.81, 15220.68 and 16434.55 million respectively.

Trend values of loans and advances

Years	HBL	SCBNL	Average
2004	10001.84	5695.82	7848.83
2005	11951.86	6410.24	9181.05
2006	12424.52	8143.20	10283.86
2007	14642.55	8935.41	11788.98
2008	16997.99	10502.63	13750.31
2009	18208.62	11579.07	14893.85
2010	19876.91	12792.94	16334.93
2011	21545.20	14006.81	17776.00
2012	23213.49	15220.68	19217.09
2013	24881.78	16434.55	20658.17



The above chart shows the trend behaviors of loans and advances in HBL and SCBNL with a trend line of average of these two banks. Between two banks average loan and advances and rate of increase in loan and advances, both seem higher in HBL. In other words, loan and advances will increase with higher rate in HBL for coming five years if the past trend continues.

c) Least square linear trend of investment

As depicted by annex 31 ‘a’ i.e. y-intercept and ‘b’ i.e. slope of trend line of investment in HBL remained rs 10774.37 and rs 489.20 million respectively. Throughout the study period investment of the bank showed increasing trend. It increased by an average amount of rs 489.20 million per year.

Therefore trend equation of investment is,

Yc = 10774.37 + 489.20X

On the basis of above trend equation, forecasted investment of HBL for coming five years would be 12241.97, 12731.17, 13220.37, 13709.57 and 14198.77 million respectively.

Annex 32 depicts that 'a' i.e. y-intercept and 'b' i.e. slope of trend line of investment in SCBNL were 11562.46 and 786.96 million rupees respectively. Investment of the bank showed increasing trend throughout the study period. It increased by an average amount of 786.93 million rupees per year.

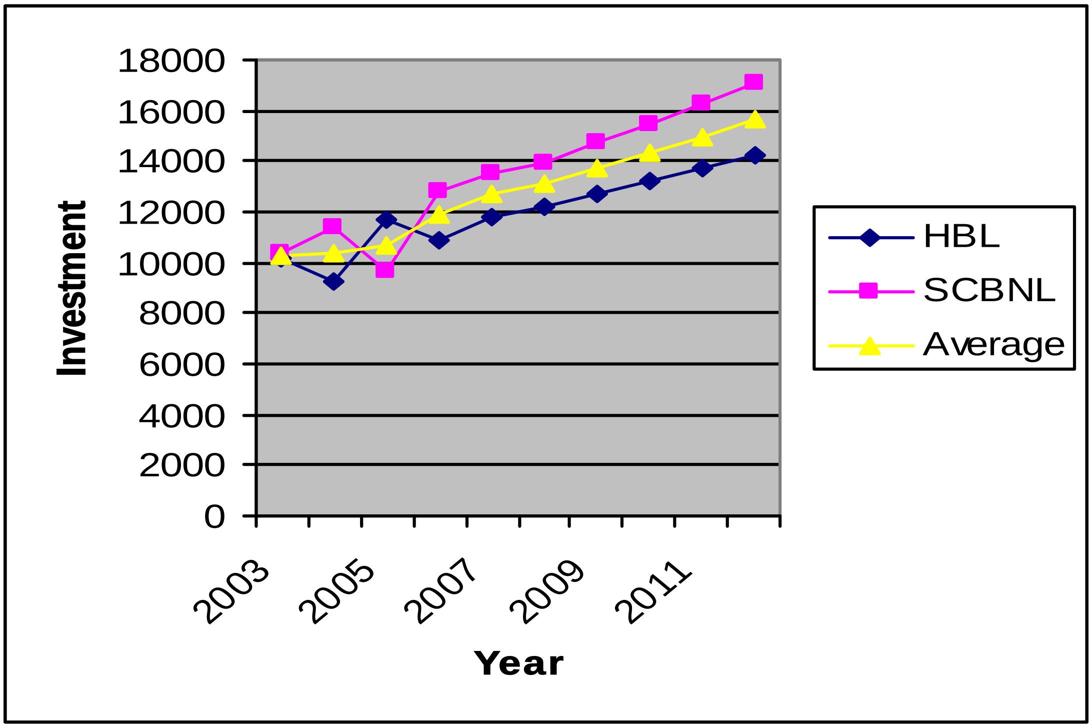
Therefore trend equation of investment is,

Yc =11562.42 +786.93X

As per the trend equation obtained above, forecasted investment of the bank for coming five years would be 13923.25, 14710.18, 15497.11, 16284.04 and 17070.97 million rupees respectively.

Trend values of investment

year	HBL	SCBNL	Average
2004	10175.43	10357.67	10266.55
2005	9292.10	11360.32	10326.21
2006	11692.34	9702.55	10697.45
2007	10889.03	12838.55	11863.79
2008	11822.98	13553.23	12688.11
2009	12241.97	13923.25	13082.61
2010	12731.17	14710.18	13720.67
2011	13220.37	15497.11	14358.74
2012	13709.57	16284.04	14996.81
2013	14198.77	17070.97	15634.87



The above chart shows the trend behavior of investment in HBL and SCBNL along with a trend line of average of these two banks. Comparing between two banks investment trend, average investment and rate of the increase in total investment both appear higher in SCBNL except in 2005. It means investment will be in higher rate in SCBNL for coming years if the past trend continues.

d) Least square linear trend of profit

Annex 33 depicts that ‘a’ i.e. y-intercept and ‘b’ i.e. slope of trend line of net profit in HBL were Rs 346.54 and 75.38 million respectively. Throughout the study period, net profit showed increasing trend. It increased by the rate of 75.38 million rupees per year.

Therefore trend equation of net profit is,

Yc =346.54 +75.38X

On the basis of trend equation obtained above, the forecasted net profit for coming five years would be 572.68, 648.06, 723.44, 798.82 and 874.20 million rupees respectively.

As shown by annex 34 ‘a’ i.e. y-intercept and ‘b’ i.e. slope of trend line of net profit in SCBNL were 586.86 and 49.04 million rupees. Net profit showed increasing trend throughout the study period. It increased by 49.04 million rupees per year.

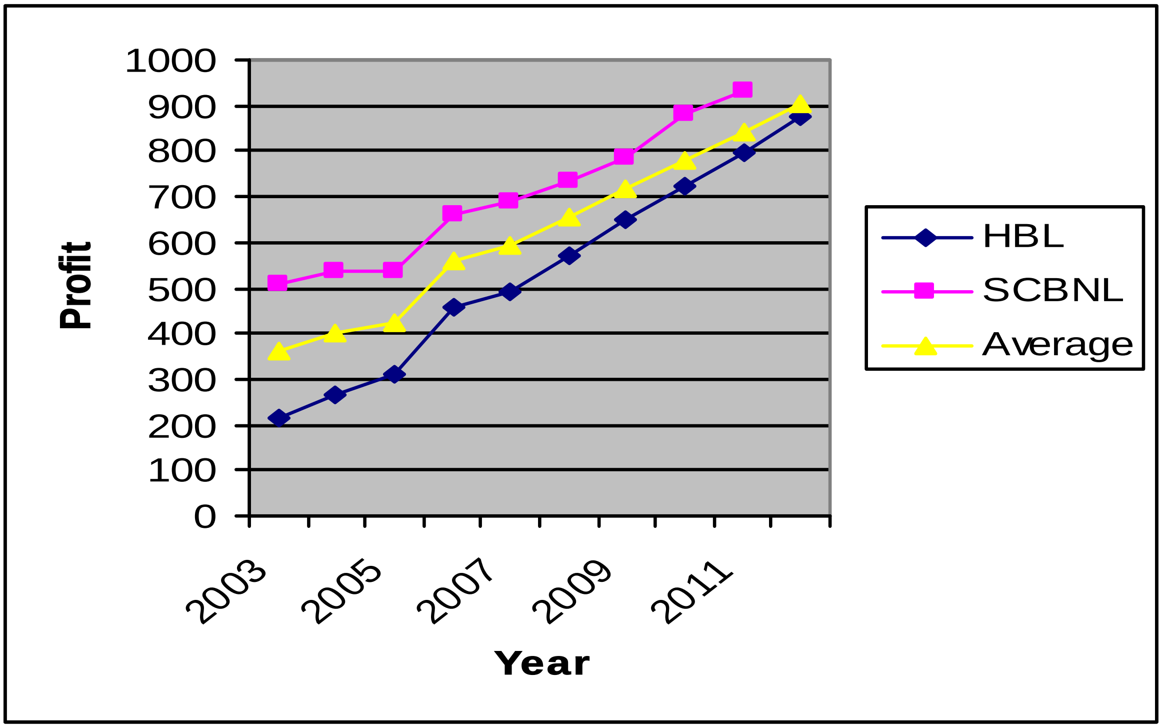
Therefore the trend equation of net profit is,

$Yc = 586.86 + 49.04\ X$

As per trend equation obtained above, forecasted net profit of the bank for coming five years would be 733.98, 783.02, 832.06, 881.10, 930.14 and 979.18 million respectively.

Trend values of profit

year	HBL	SCBNL	Average
2004	212.12	506.93	359.53
2005	263.05	537.80	400.43
2006	308.27	539.20	423.74
2007	457.45	658.75	558.10
2008	491.82	691.66	591.74
2009	572.68	733.98	653.33
2010	648.06	783.02	715.54
2011	723.44	881.10	777.75
2012	798.82	930.14	839.96
2013	874.20	979.18	902.17



The above chart shows the trend behavior of net profit in HBL and SCBNL along with a trend line of average of these two banks. Between two banks average of net profit appeared higher in SCBNL but the rate of increase appeared higher in HBL. If this trend continues, net profit of HBL exceeds that of SCBNL in near future.

5. Summary, Conclusion and Recommendations

5.1 Summary

The following findings have been derived from the analysis and interpretation of data.

1) Current ratios of both of the banks showed slightly fluctuating trend. Both of the banks could not maintain the conventional standard of 2:1. However, the average of the ratios appeared higher in HBL, which signifies that HBL is more capable of meeting immediate liabilities in contrast to SCBNL. The ratio was found more consistent in HBL.

2) Average cash and bank balance to current and saving deposits ratio of HBL appeared greater than that of SCBNL. It indicates that the fund utilization of HBL is poor than that of SCBNL. In other words HBL seems less successful to utilize the fund raised from the current and saving deposits that may ultimately affect the profitability adversely.

3) Cash and bank balance to total deposit ratio seemed almost same between two banks. Which reveals that the portion of deposit held for the immediate payment was almost same during the study period.

4) NRB balance to current and saving deposit ratio was not remained sufficiently higher above the standard set by NRB i.e. 8% in the review period of both banks. It was found below 8% in 1st, 5th and 8th year of HBL and in SCBNL it was below in 1st, 2nd, 4th and 5th year.

5) Both of the banks maintained NRB balance to fixed deposits ratios above the standard prescribed by NRB i.e. 6% in each year of the study period. In average SCBNL seem to maintain greater portion of

fixed deposit as liquid asset the ratio showed less consistently in SCBNL.

6) Average fixed deposit to the total deposit ratio come higher in HBL. It means that HBL can grasp the opportunity of investing the fund in more profitable sectors like long term loans. On the other hand, SCBNL can utilize less cost bearing fund in current assets.

7) In the context of debt equity ratio, both banks have employed considerably greater portion of debt in their capital. Therefore, they should be aware of the possible risk that may arise due to slackness in the business activities.

8) Debt assets ratio remained higher in HBL than in SCBNL which reveals that the greater portion of asset in HBL was financed through the outsider’s cost-bearing fund. The ratio appeared more uniform in SCBNL.

9) Average debt to total capital ratio remained slightly greater in HBL but the uniformity of the ratio appeared higher in SCBNL.

10) Interest coverage ratio is decreasing in first three years in HBL and then it goes increasing. On the other hand the ratio is fluctuating in SCBNL.

11) Loans and advances to total deposit ratio is higher in HBL which indicates that turnover of total deposit in form of loans and advances is better in HBL. The ratio varied less in the same bank.

12) Loans and advances to fixed deposit ratio were higher in SCBNL, Which indicates that the turnover of fixed deposit in form of loans and advances is better in SCBNL. The ratio varied less in HBL.

13) Loans and advances to saving deposit ratio appeared significantly higher in HBL. It indicates the better utilization of saving

deposits in HBL than SCBNL. The ratio remained more uniform in HBL.

14) Investment to total deposit ratio seems higher in SCBNL than in HBL, Which indicates that SCBNL is more successful to utilize the deposits fund in investment.

15) Loan loss coverage ratio of SCBNL over the period remained lesser which indicates that assets financed by the bank are superior in contrast to HBL and also the consistency in maintaining the quality of assets appears better in SCBNL.

16) With respect to loan loss provision to total income ratio, SCBNL seems more aware in quality while advancing loans as the ratio is less in the bank. Portion of loan loss provision in total income varied less in the same bank.

17) Loan loss provision to total deposit ratio came to be less in SCBNL and hence it can be concluded that loan and advance granted by the bank are less risky. In consistency of ratios both of the banks seemed almost same.

18) Average return on total asset in SCBNL was much higher than in HBL. It implies that the profitability position of HBL in the study period proved to be weaker.

19) Return on total deposit was considerably higher in SCBNL, which signifies that SCBNL is more successful to utilize deposit for making profit. The ratio seemed almost consistent in both of the banks.

20) Interest expenses to interest income ratio, on an average was lower in SCBNL, which reveals that SCBNL invested the fund rouse more successfully to earn the interest rather than paying the interest for the debt.

21) As revealed by higher interest earned to total asset ratio in HBL, HBL seemed to be in better position for income generation. The ratio fluctuated less in the SCBNL.

22) Staff expenses to total income ratio remained significantly lower in SCBNL, although it was higher in first year of the study period. It indicates that SCBNL carried out its operation more efficiently with lesser expenses on staff. On the other hand HBL spent more for staff so as to motivate them.

23) Although the office operation expenses to total income ratio is greater in SCBNL in first four year of the study period, it seems to be able to control it. On the other hand the ratio goes increasing all the study period in HBL.

5.2 Conclusion

Joint venture banks have played significant role in the economic development of country. They have introduced new technology in the banking system mobilized the savings of community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks. Therefore the study has been concluded to evaluate the performance of joint venture banks especially, that of Himalayan bank limited and standard chartered bank Nepal limited in order to find out their strengths and weakness.

To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the previous dissertation have been reviewed. For analyzing the financial data of the sampled banks the financial tools-ratio analysis, income and expenditure analysis and the statistical tool-least square linear trend have been used. From the analysis and interpretation of the data, the researcher arrives at following conclusion.

Liquidity position of both of the banks seems satisfactory. Overall liquidity position of HBL appears slightly stronger than that of SCBNL. However, looking up more funds in form of current assets is also not wise because it has negative impact on profitability. Both of the banks have used higher proportion of debt in their capital structure. HBL appears more levered than that of SCBNL. SCBNL is found more successful to utilize it deposit in profitable sector on analyzing the assets owned by the banks, SCBNL is found superior because assets possessed by SCBNL are less risky than that of HBL.

Income and expenses are in rising trend in both of the banks. Interest seems to occupy major part of the both income and expenses. Comparatively, interest remained more dominant in the total income and expensed of HBL than that of SCBNL.

Trend analysis depicts that total deposit, loan and advances have been growing faster pace in HBL than in SCBNL, whereas investment is growing faster in SCBNL than in HBL. Therefore estimated amount of the total deposit and loan and advances will be higher in HBL and estimated amount of the investment will be higher in SCBNL than in HBL. But the growth rate of profit is higher in HBL although it is lower in each year of the study period. It seems that the net profit of HBL exceed the profit of SCBNL in nearer future if the past trend continues.

5.3 Recommendations

On the basis of major findings some important suggestions have been forwarded so that they will help the sampled banks to strengthen weaker aspects of financial activities.

a) Both of the banks have maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. So, both of the banks are suggested to lower this ratio and invest the surplus fund in other current assets such as loans and advance, bills purchase and discount, money at call and short notice.

b) It is suggestive that these banks should hold the fund in form of cash or cash equivalent items only to the extent of requirement. Through it is difficult to know the exactly suitable liquidity ratio; estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.

c) The banks have employed considerably greater portion of debt in their capital. Therefore, they should be aware of possible risk that may arise due to slackness in the business activities. Both of the banks are suggested to adopt more precaution so as to check risk factors.

d) The quality of the assets owned by HBL seems poorer in comparison to SCBNL. Therefore HBL is suggested to advance the loans only after the proper analysis of customer.

e) Greater portion of income has been spent for staff and office operation in SCBNL. Through the use of capacity building programs, seminars, conferences, training etc, staffs can be made more efficient. It is also suggested to control the office operation expenses by searching the loopholes.

f) In both of the banks, earning compared to the total deposit accumulated could not grow proportionately. Therefore they are suggested to invest in other current assets rather than in the low yielding Treasury bill on which interest is not satisfactory at present. If the liquidity position does not appear weaker, it will be better for the bank to increase the investment in long term loans after analyzing risk.

g) Both of the banks are suggested to review their investment portfolio to see if there is any better mix than the present one.

h) Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the banks are suggested to diversity their loans in priority and deprived sectors as per the directive of NRB.

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Annex 1 current ratio

Bank	HBL			SCBNL		
Year	Current assets	Current liabilities	Ratio	Current assets	Current liabilities	Ratio
2004	20353.58	13799.46	1.48:1	18342.03	14258.13	1.29:1
2005	23125.35	17802.00	1.30:1	20808.79	17603.83	1.19:1
2006	24462.38	18068.67	1.36:1	23505.82	20651.65	1.14:1
2007	27548.87	19689.46	1.40:1	21822.16	18838.90	1.16:1
2008	28919.56	20839.38	1.39:1	25675.03	21480.45	1.20:1
2009	32945.08	22575.53	1.46:1	28471.09	22883.84	1.25:1

Annex 2 cash and bank balance to current and saving deposit ratio

Bank	HBL			SCBNL		
Year	Cash & bank balance	Current & saving deposit	Ratio	Cash & bank balance	Current & saving deposit	Ratio
2004	1264.67	11798.31	10.71%	825.26	13250.29	6.22%
2005	1979.20	14373.68	13.77%	1512.30	16401.78	9.22%
2006	2001.18	15941.04	12.55%	2023.16	18588.76	10.88%
2007	2014.47	17897.57	11.25%	1111.11	17387.26	6.39%
2008	1717.35	19611.00	8.75%	1276.24	19279.61	6.61%
2009	1449.78	21374.35	6.78%	2021.02	20038.91	10.08%

Annex3 cash and bank balance to total deposit ratio

Bank	HBL			SCBNL		
Year	Cash & bank balance	Total deposit	Ratio	Cash & bank balance	Total deposit	Ratio
2004	1264.67	18619.37	6.79%	825.26	15835.74	5.21%
2005	1979.20	21007.37	9.42%	1512.30	18755.63	8.06%
2006	2001.18	22010.33	9.09%	2023.16	21161.44	9.56%
2007	2014.47	24814.01	8.11%	1111.11	19335.09	5.74%
2008	1717.35	26490.85	6.48%	1276.24	23061.03	5.59%
2009	1449.78	30048.41	4.82%	2021.02	24647.02	8.19%

Annex4 NRB balance to current and saving deposit ratio

Bank	HBL			SCBNL		
Year	NRB balance	Current and saving deposit	Ratio	NRB balance	Current and saving deposit	Ratio
2004	695.3	11798.31	5.89%	376.22	13250.29	2.83%
2005	1153.13	14373.68	8.02%	1141.09	16401.78	6.95%
2006	1625.98	15941.04	10.19%	1534.16	18588.76	8.25%
2007	1604.14	17897.57	8.96%	692.19	17387.26	3.98%
2008	1096.25	19611.00	5.58%	749.74	19279.61	3.88%
2009	1272.54	21374.35	5.95%	1613.75	20038.91	8.05%

Annex5 NRB balance to fixed deposit ratio

Bank	HBL			SCBNL		
Year	NRB balance	Fixed deposit	Ratio	NRB balance	Fixed deposit	Ratio
2004	695.3	5480.84	12.68%	376.22	2264.77	16.61%
2005	1153.13	3205.37	35.97%	1141.09	1948.59	58.55%
2006	1625.98	4710.17	34.52%	1534.16	1428.49	107.39%
2007	1604.14	6107.43	26.26%	692.19	1416.38	48.87%
2008	1096.25	6350.20	17.26%	749.74	2136.30	35.09%
2009	1272.54	8201.13	15.51%	1613.75	3196.48	50.48%

Annex6 fixed deposit to total deposit ratio

Bank	HBL			SCBNL		
Year	Fixed deposit	Total deposit	Ratio	Fixed deposit	Total deposit	Ratio
2004	5480.84	18619.37	29.43%	2264.77	15835.74	14.30%
2005	3205.37	21007.37	15.25%	1948.59	18755.63	10.38%
2006	4710.17	22010.33	21.39%	1428.49	21161.44	6.75%
2007	6107.43	24814.01	24.69%	1416.38	19335.09	7.32%
2008	6350.20	26490.85	23.97%	2136.30	23061.03	9.26%
2009	8201.13	30048.41	27.29%	3196.48	24647.02	12.96%

Annex7 Debt equity ratio

Bank	HBL			SCBNL		
Year	Total debt	Total equity	Ratio	Total debt	Total equity	Ratio
2004	16723.33	858.11	1948.85%	13179.67	1235.47	1066.77%
2005	18402.11	1063.13	1730.93%	13642.91	1368.90	996.63%
2006	18867.39	1324.16	1424.85%	16126.19	1495.73	1078.14%
2007	20671.74	1541.74	1340.80%	15618.24	1582.41	986.99%
2008	21939.62	1766.17	1242.21%	18321.87	1754.13	1044.49%
2009	25265.18	2146.49	1177.04%	20852.35	2116.35	985.29%

Annex8 Debt assets ratio

Bank	HBL			SCBNL		
Year	Total debt	Total assets	Ratio	Total debt	Total assets	Ratio
2004	16723.33	20672.43	80.89%	13179.67	18443.10	71.46%
2005	18402.11	23355.22	78.79%	13642.91	21000.50	64.96%
2006	18867.39	24762.02	76.19%	16126.19	23642.05	68.20%
2007	20671.74	27844.69	74.23%	15618.24	21893.57	71.33%
2008	21939.62	29460.38	74.47%	18321.87	25767.35	71.10%
2009	25265.18	33519.14	75.37%	20852.35	28596.68	72.91%

Annex9 Debt to total capital ratio

Bank	HBL			SCBNL		
Year	Total debt	Total capital	Ratio	Total debt	Total capital	Ratio
2004	16723.33	17581.44	95.11%	13179.67	14415.14	91.42%
2005	18402.11	19465.24	94.53%	13642.91	15011.81	90.88%
2006	18867.39	20191.55	93.44%	16126.19	17621.92	91.51%
2007	20671.74	22213.48	93.05%	15618.24	17200.65	90.80%
2008	21939.62	23705.79	92.54%	18321.87	20076.00	91.26%
2009	25265.18	27411.67	92.16%	20852.35	22968.70	90.78%

Annex 10 Interest coverage ratio

Bank	HBL			SCBNL		
Year	Net profit before interest &tax	Interest charge	Ratio	Net profit before interest &tax	Interest charge	Ratio
2004	927.17	1148.99	80.69%	963.29	1013.63	95.03%
2005	914.15	1201.23	76.10%	970.30	1001.35	96.89%
2006	912.11	1245.89	73.20%	1049.40	1042.17	100.69%
2007	1084.50	1446.46	74.97%	1052.27	1058.67	99.39%
2008	1321.21	1626.47	81.23%	1236.45	1189.60	103.93%
2009	1484.81	1775.58	83.62%	1420.15	1411.98	100.57%

Annex 11 Loans and advances to total deposit ratio

Bank	HBL			SCBNL		
Year	Loans & advance	Total deposit	Ratio	Loans & advance	Total deposit	Ratio
2004	8913.72	18619.37	47.87%	5364.00	15835.74	33.87%
2005	10001.84	21007.37	47.61%	5695.82	18755.63	30.36%
2006	11951.86	22010.33	54.30%	6410.24	21161.44	30.29%
2007	12424.52	24814.01	50.07%	8143.20	19335.09	42.11%
2008	14642.55	26490.85	55.27%	8935.41	23061.03	38.74%
2009	16997.99	30048.41	56.56%	10502.61	24647.02	42.61%

Annex 12 Loans and advances to fixed deposit ratio

Bank	HBL			SCBNL		
Year	Loans & advances	Fixed deposit	Ratio	Loans & advances	Fixed deposit	Ratio
2004	8913.72	5480.84	162.63%	5364.00	2264.77	236.84%
2005	10001.84	3205.37	312.03%	5695.82	1948.59	292.30%
2006	11951.86	4710.17	253.74%	6410.24	1428.49	448.74%
2007	12424.52	6107.43	203.43%	8143.20	1416.38	574.93%
2008	14642.55	6350.20	230.58%	8935.41	2136.30	418.26%
2009	16997.99	8201.13	207.26%	10502.61	3196.48	328.56%

Annex 13 Loans and advances to saving deposit ratio

Bank	HBL			SCBNL		
Year	Loans & advances	Saving deposit	Ratio	Loans & advances	Saving deposit	Ratio
2004	8913.72	9163.394	97.26%	5364.00	9441.90	56.81%
2005	10001.84	10870.54	92.00%	5695.82	10633.16	53.56%
2006	11951.86	11759.60	101.63%	6410.24	12771.82	50.19%
2007	12424.52	12852.41	96.67%	8143.20	13030.92	62.49%
2008	14642.55	14582.85	100.40%	8935.41	14597.67	61.21%
2009	16997.99	15784.76	107.68%	10502.61	15244.38	68.89%

Annex 14 Investment to total deposit ratio

Bank	HBL			SCBNL		
Year	Investment	Total deposit	Ratio	Investment	Total deposit	Ratio
2004	9157.10	18619.37	49.18%	9275.88%	15835.74	58.57%
2005	10175.43	21007.37	48.43%	10357.67%	18755.63	55.22%
2006	9292.10	22010.33	42.21%	11360.32%	21161.44	53.68%
2007	11692.34	24814.01	47.11%	9702.55%	19335.09	50.18%
2008	10889.03	26490.85	41.10%	12838.55%	23061.03	55.67%
2009	11822.98	30048.41	39.34%	13553.23%	24647.02	54.98%

Annex 15 Loan loss coverage ratio

Bank	HBL			SCBNL		
Year	Loan loss provision	Total risk asset	Ratio	Loan loss provision	Total risk asset	Ratio
2004	166.50	8913.72	1.86%	75.04	5364.00	1.39%
2005	202.87	10001.84	2.02%	2.33	5695.82	0.04%
2006	186.22	11951.86	1.55%	23.51	6410.24	0.36%
2007	58.88	12424.52	0.47%	30.08	8143.20	0.36%
2008	145.15	14622.55	0.99%	47.72	8935.41	0.53%
2009	90.68	16997.99	0.53%	36.80	10502.63	0.35%

Annex 16 Loan loss provision to total income ratio

Bank	HBL			SCBNL		
Year	Loan loss provision	Total income	Ratio	Loan loss provision	Total income	Ratio
2004	166.50	1389.79	11.98%	75.04	1446.81	5.18%
2005	202.87	1454.30	13.94%	2.33	1503.60	0.15%
2006	186.22	1519.61	12.25%	23.51	1584.00	1.48%
2007	58.88	1760.68	3.34%	30.08	1576.24	1.90%
2008	145.15	2042.37	7.10%	47.72	1721.44	2.77%
2009	90.68	2160.77	4.19%	36.80	1971.06	1.86%

Annex 17 Loan loss provision to total deposit ratio

Bank	HBL			SCBNL		
Year	Loan loss provision	Total deposit	Ratio	Loan loss provision	Total income	Ratio
2004	166.50	18619.37	0.89%	75.04	15835.47	0.47%
2005	202.87	21007.37	0.96%	2.33	18755.63	0.01%
2006	186.22	22010.33	0.84%	23.51	21161.44	0.11%
2007	58.88	24814.01	0.23%	30.08	19335.09	0.15%
2008	145.15	26490.85	0.54%	47.72	23061.03	0.20%
2009	90.68	30048.41	0.30%	36.80	24647.02	0.14%

Annex 18 Return on total asset

Bank	HBL			SCBNL		
Year	NPAT	Total asset	Ratio	NPAT	Total asset	Ratio
2004	235.02	20672.43	1.33%	479.20	18443.10	2.59%
2005	212.12	23355.22	0.905	506.93	21000.50	2.41%
2006	263.05	24762.02	1.06%	537.80	23642.05	2.27%
2007	308.27	27844.69	1.10%	539.20	21893.57	2.46%
2008	457.45	29460.38	1.55%	658.75	25767.35	2.55%
2009	491.82	33519.14	1.46%	691.66	28596.68	2.41%

Annex 19 Return on total deposit

Bank	HBL			SCBNL		
Year	NPAT	Total deposit	Ratio	NPAT	Total deposit	Ratio
2004	235.02	18619.37	1.26%	479.20	15835.74	3.02%
2005	212.12	21007.37	1.00%	506.93	18755.63	2.70%
2006	263.05	22010.33	1.19%	537.80	21161.44	2.54%
2007	308.27	24814.01	1.24%	539.20	19335.09	2.78%
2008	457.45	26490.85	1.71%	658.75	23061.03	2.85%
2009	491.82	30048.41	1.63%	691.66	24647.02	2.80%

Annex 20 Total interest expenses to total interest income ratio

Bank	HBL			SCBNL		
Year	Interest expenses	Interest income	Ratio	Interest expenses	Interest income	Ratio
2004	578.13	1148.99	50.31%	299.85	1013.63	29.58%
2005	554.12	1201.23	46.12%	255.15	1001.35	25.48%
2006	491.54	1245.89	39.45%	275.80	1042.17	26.46%
2007	561.96	1446.46	38.85%	254.12	1058.67	24.00%
2008	648.84	1626.47	39.89%	303.19	1189.60	25.48%
2009	767.41	1775.58	43.22%	413.05	1411.98	29.25%

Annex 21 Interest earned to total asset ratio

Bank	HBL			SCBNL		
Year	Interest earned	Total asset	Ratio	Interest earned	Total asset	Ratio
2004	578.13	20672.43	2.79%	299.85	18443.10	1.62%
2005	554.12	23355.22	2.37%	255.15	21000.50	1.21%
2006	491.54	24762.02	1.98%	275.80	23642.05	1.16%
2007	561.96	27844.69	2.01%	254.12	21893.57	1.16%
2008	648.84	29460.38	2.20%	303.19	25767.35	1.17%
2009	767.41	33519.14	2.28%	413.05	28596.68	1.44%

Annex 22 Staff expenses to total income ratio

Bank	HBL			SCBNL		
Year	Staff expenses	Total income	Ratio	Staff expenses	Total income	Ratio
2004	101.53	1389.79	7.30%	126.50	1446.81	8.74%
2005	120.14	1454.30	8.26%	128.32	1503.60	8.53%
2006	152.50	1519.61	10.03%	134.68	1584.00	8.50%
2007	178.58	1760.68	10.14%	148.58	1576.24	9.42%
2008	234.58	2042.37	11.48%	168.23	1721.44	9.77%
2009	272.22	2160.77	12.59%	199.77	1971.06	10.13%

Annex 23 Office operation expenses to total income ratio

Bank	HBL			SCBNL		
Year	Office operation expenses	Total income	Ratio	Office operation expenses	Total income	Ratio
2004	155.78	1389.79	11.20%	190.94	1446.81	13.19%
2005	177.13	1454.30	12.17%	311.01	1503.60	20.68%
2006	211.04	1519.61	13.88%	279.69	1584.00	17.65%
2007	277.37	1760.68	15.75%	256.64	1576.24	16.28%
2008	329.69	2042.37	16.14%	211.08	1721.44	12.26%
2009	341.56	2160.77	15.80%	228.45	1971.06	11.59%

Annex 24 Income analysis of HBL

income \ year		2004	2005	2006	2007	2008	2009
Interest income	Rs	1148.99	1201.23	1245.89	1446.46	1626.47	1775.58
	%	82.67	82.59	81.98	82.16	79.63	82.17
Commission & discount	Rs	101.70	102.56	123.92	132.81	165.44	193.22
	%	7.31	7.05	8.15	7.54	8.10	8.94
Exchange gain	Rs	104.60	109.59	112.41	137.30	198.13	151.63
	%	7.52	7.53	7.39	7.79	9.70	7.01
Other income	Rs	34.48	40.9	37.36	43.82	52.32	40.32
	%	2.48	2.81	2.45	2.48	2.57	1.86
Total	Rs	1389.77	1454.28	1519.58	1760.39	2042.37	2160.75

Annex 25 Income analysis of SCBNL

income \ year		2004	2005	2006	2007	2008	2009
Interest income	Rs	1013.63	1001.35	1042.17	1058.67	1189.60	1411.98
	%	70.06	66.59	65.79	67.16	69.10	71.63
Commission & discount	Rs	163.46	215.20	198.94	184.83	222.92	221.20
	%	11.29	14.31	12.55	11.72	12.94	11.22
Exchange gain	Rs	228.10	232.52	273.05	266.86	283.47	309.08
	%	15.76	15.46	17.23	16.93	16.46	15.68
Other income	Rs	41.61	54.51	69.83	65.89	25.44	28.78
	%	2.87	3.62	4.40	4.18	1.47	1.46
Total	Rs	1389.77	1503.58	1583.99	1576.25	1721.43	1971.04

Annex 26 Expenditure analysis of HBL

Year / income		2004	2005	2006	2007	2008	2009
Interest expenses	Rs	578.13	554.12	491.54	561.96	648.84	767.41
	%	69.20	65.08	57.48	55.20	53.48	55.56
Employee expenses	Rs	101.53	120.14	152.50	178.58	234.58	272.22
	%	12.15	14.11	17.83	17.54	19.33	19.70
Office operation expenses	Rs	155.78	177.13	211.04	277.37	329.69	341.56
	%	18.64	20.80	24.68	27.14	27.17	24.72
Total	Rs	835.44	851.39	855.08	1017.91	1213.11	1381.19

Annex 27 Expenditure analysis of SCBNL

Year / income		2004	2005	2006	2007	2008	2009
Interest expenses	Rs	299.85	255.15	275.80	254.12	303.19	413.05
	%	48.57	36.73	39.96	38.54	43.78	49.09
Employee expenses	Rs	126.50	128.32	134.68	148.58	168.23	199.77
	%	20.49	18.47	19.51	22.53	24.29	23.74
Office operation expenses	Rs	190.94	311.01	279.69	256.64	221.08	228.45
	%	30.93	44.78	40.52	38.92	31.92	27.15
Total	Rs	617.29	694.48	690.17	659.34	692.5	841.27